



Turun yliopisto
University of Turku

**POLITICAL ENVIRONMENT AND BUSINESS
DEVELOPMENT IN THE ARCTIC**
Strategic opportunities and threats for Finnish companies

Master's Thesis
in International Business

Author:
Mira Tuominen

Supervisors:
D.Sc. Elina Pelto
M.Sc. Riikka Harikkala-Laihinien

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Turku



Turun kauppakorkeakoulu • Turku School of Economics

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1 INTRODUCTION

1.1 Background of the study

The Arctic has always been an interesting region in the world. It is a convergence of Europe, Asia, and North America (Gorbachev 1987) where the ecosystem is one of a kind and there are natural resources in abundance. Furthermore its economic potential has been recently comprehended by many nations around the globe. Then again the Arctic has always been also an uncertain and politically colorful region with variable levels of tension between the coastal states throughout the years. The climate change and advancements in technology have made an unprecedented development possible in the Arctic in the past decade. The newly discovered potential does not erase the uncertainties, quite the contrary, which is why the economic growth in the region must acknowledge questions of responsibility and governance. (Stubb, Solberg & Löfven 2015.)

Lapland's chamber of commerce conducted a business survey in 2012 to calculate the possible investments in the Arctic area in the next ten years. According to the survey the amount of expected investments will rise up to 125 billion euros from which northern Finland would receive approximately 22 billion euros. (Ulkoasiainministeriö 2012, 8.) Naturally Finnish companies are interested in expanding to the north of Europe to take advantage of the potential and the rise in demand. However, according to another recent study by Lapland's chamber of commerce (2014) in order to promote business in the north, 54 percent of the companies have a need to get more cooperation between companies to find the possible markets and customers.

The existing business related research of the Arctic has mainly focused on different sea routes through the Arctic Ocean and governance issues in the area (see Young 2005; Koivurova 2012; Kaján 2014; Kenealy 2014). The reason for this is that until recently vast economic operations in the region have not been viable and therefore business operations have been quite minimal. The Arctic is a still highly political area and the strategies of governments in the area influence the strategic management of companies by enabling or restricting their behavior. Therefore it is important for companies to understand the role of the political environment in the area.

The political environment in which a company operates affects its strategic management in many ways. External powers of the host country, such as government and institutions, require certain things to be done in a certain manner. In other words, rules and regulations need to be followed. Furthermore, there can be strategies of other organizations or governments that can affect the business of others. The strategies and policies are important to be recognized and when understood those can be used as advantages to

increase competitiveness. The importance and complicated nature of the governance in the Arctic is a current issue. The newest Arctic Yearbook that was published in late October 2015 deals solely with governance issues in the area. (Heininen, Exner-Pirot & Plouffe 2015.) The political environment cannot be overlooked by companies as it affects the strategic decisions and the future development of the business environment in which company is operating in (Barney 1997, 500).

The study focuses on the political dimension of the operational environment. This is due to the fact that the importance of the Arctic is suddenly increased in national, international and circumpolar politics (Dittmer, Moisio, Ingram & Dodds 2011, 202). One of the reasons for this increase of the importance is a legacy from the Cold War when the region was one of the most sensitive areas. Furthermore the ecological development has increased the economic opportunities of Arctic which of course attracts businesses. (Heikkilä & Laukkanen 2013, 62.) As a relatively new business environment, Arctic is still quite unstructured area where the rules of competition are not clear yet. This needs to be understood as well that in these future places of competition, the competition is a long term project not a thing just for the next quarter. (Hamel & Prahalad 1994, 37.)

1.2 Definitions of the Arctic

The Arctic region is a complicated and fragile area. In recent years interest of the region has risen in the minds of business people. The region offers many possibilities in the future for businesses but there are still many challenges and uncertainties that need to be overcome before extensive business operations are truly profitable. (Smith 2011a, 6; 2011b, 129; Baozhi 2013; Heikkilä & Laukkanen 2013, 62; Stubb et al. 2015.)

The uncertainties relating to the Arctic begin with its definition as “*the Arctic has no precise limits*” (Heikkilä & Laukkanen 2013, 10). However, there are definitions of Arctic available and there are three definitions that are the most common ones; the first one defines the Arctic as the area inside the Arctic Circle which goes at 66 ° 33’ 39’’ north of the Equator, the second delimits the area to that where the average temperature in the warmest month lies below 10 ° centigrade, and in the last one the northern limit of upright tree growth is considered the border line of the Arctic region (NSID 2014). Figure 1 shows these definitions and how they differ from one another.



Figure 1 Definitions of the Arctic (Armstrong et al. 1978)

The Arctic Circle, in figure 1, is in light blue dash line. The green line is the next which represents the upright tree growth limit and the red line symbolizes the area in which the average temperature in the warmest month lies below 10 ° centigrade. As seen, the Arctic Circle definition is the widest one and that is the most commonly used definition as well, which is why this definition is used in this study as well. Furthermore, this definition also includes Finland as a part of the Arctic, which all of the definitions do not do. The multiple definitions complicate the governance as different countries have different definitions in use.

According to the United Nations Convention on the Law of the Sea (UNCLOS 1982) from 1982, the Arctic States have the right to exploit the natural resources within their economic zones, which go approximately 370 kilometers off their shores. This is presented also in figure 2 where the 200-mile line represents the 370 kilometers. In addition, the territory may be widened if the continental shelf of the state extends beyond

the border of the economic zone. By this definition, the Arctic states are those that have access to the Arctic Sea, in other words Canada, Denmark (Greenland), Norway, Russia, Iceland, and the United States. However, Finland and Sweden are also considered as Arctic states even though they do not have northern coastline to the Arctic Ocean due to their otherwise arctic location. (Heikkilä & Laukkanen 2013, 25.) Together these eight countries form the Arctic Council which is the most influential political entity in the area and was founded in 1996 (Arctic Council 2014).

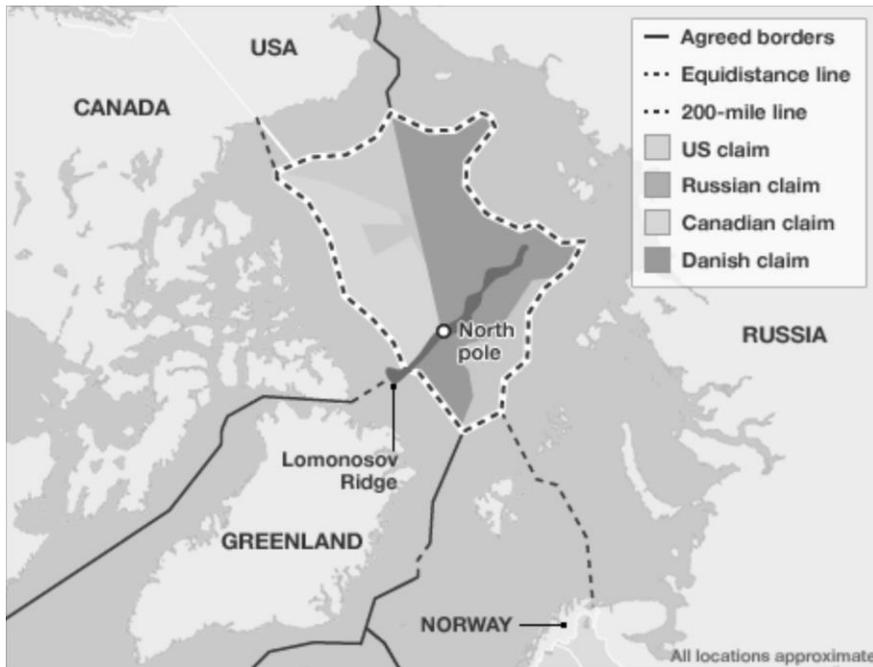


Figure 2 The disputed areas in the Arctic (BBC US & Canada 2014)

There are still some areas unreachable by the UNCLOS and these are possible conflict areas especially since the United States has refused to ratify UNCLOS. Therefore the disputes are even more complicated and can tense up relations between nations. (Heikkilä & Laukkanen 2013, 48; Collins, Virginia & Yalowitz 2015.) One example of this is the North Pole where the Danish government made the first claim recently, in December 2014 (Pettersen 2014).

There are vast natural resources in the Arctic which are in high demand and that causes claims of territories and disagreements between nations (figure 2). Especially the area called Lomonosov Ridge is very disputable. There are a lot of politics and diplomacy involved and the agreements are slow in making because multiple countries have interest on the same area. In business this means that the differing opinions in area claims can cause problems between competing countries that can have an effect on companies as well through agreements and business relations. (BBC US & Canada 2014.)

As seen in figure 2, the area which does not belong to any country is fairly vast. The 200-mile line or the 370 kilometers represents the border of the economic zones. In addition, there are many claims to this area, some of which are clashing with each other. A recent agreement was made between Norway and Russia in 2010 on the boundary and on division of the economic zone in the Barents Sea. This also marked development in cooperation and goodwill between the nations. (Heikkilä & Laukkanen 2013, 48.)

In 2013 the population of the Arctic was about four million people from which 300 000 were indigenous. There are no cities with more than one million people in the area and even cities with more 100 000 people are rare as seen in figure 3. Globally this is an interesting exception because the region is vast but there are huge regions that lack human activity or settlement completely. (Heikkilä & Laukkanen 2013, 20, 24–25.)



Figure 3 Population centers in the Arctic (Heikkilä & Laukkanen 2013, 24)

On top of the lack of human activity, there are no national capitals in the Arctic. However, two of the world's great powers, Russia and the United States, have presence there while China, as the third great power, is completely lacking one (Heikkilä & Laukkanen 2013, 25). Therefore China has a great interest for the area and its possibili-

ties which is why the country is included in the analysis as well. Altogether there are not too many cities inside the Arctic Circle. Exception to this, are the Nordic countries where there are more cities than in the other countries but still, as figure 3 shows, the cities are relatively small.

Perhaps due to its history, location or a combination of the two, the Arctic is full of different types of cooperation structures. Once looking into Arctic area, it is easy to find dozens if not hundreds of organizations or research institutions, each of which has a different foothold in the region. However, there seems to be no immediate threat of a new arms race in the area, at least concerning the ownership of the sea regions. The Arctic states are all established and they have mutual interest in cooperation. (Heikkilä & Laukkanen 2013, 49, 62.)

1.3 Purpose of the study

The Arctic is evolving into a more lucrative area for businesses. This is mainly due to the facts that climate change is making the area more approachable and navigable while the technology is catching up with the special equipment required there. The Arctic holds great potential for the oil, natural gas, minerals, logistics and tourism industries to name a few. However, as told, the area is politically charged and there are many underlying issues in the area. (Scrivener 1996; Myrjord 2003; Young 2005; Collins et al. 2015a; 2015b.) The companies and industries working in the Arctic and wanting to stay ahead of the competition should be aware of these issues.

The level of uncertainties is higher and unlike the ones elsewhere in the Western markets which marks the region unique (Heininen 1999; Keskitalo 2007; Pohjolainen 2014; Trenin 2014; Collins et al. 2015a; Collins, Sfraga, Virginia & Yalowitz 2015b). This study evaluates the main influencers in the political field against the future potential and threats they might cause to the businesses operating in Arctic. The main influencers in this study are the Arctic Council as it is the main political forum where all the Arctic States are making decisions together. China's influence is also considered as it rose from the data gathered and it is a non-Arctic state with strong interest in the region. As it is one of the major powers in the world it represents the other non-Arctic states that have showed interest towards the Arctic. The strategy which China uses differs from the strategies of the Arctic States and therefore the different influencers offer distinctive opportunities and threats for Finnish companies.

The thesis tries to describe the opportunities and threats in the Arctic for Finnish companies. It can be seen as a SWOT analysis where the external opportunities and threats of are emphasized and internal strengths and weaknesses also considered. Determining these opportunities and threats is important as there are political tensions and

differing strategies executed by governments that affect companies. The companies that the study focuses on are Finnish companies operating in Arctic or supplying for the Arctic environment. Once the political environment is comprehended and therefore more manageable companies can incorporate it to their strategic management and from there improve their competitiveness against the other Arctic companies outside of Finland.

The objective of this study is to understand how the political environment in the Arctic affects a Finnish company's strategy. This was divided into following sub-objectives:

- Describing the political environment in the Arctic
- Analyzing opportunities and threats in the political business environment of the Arctic
- Analyzing how Finnish companies could develop their strategic management plans in order to navigate successfully in the Arctic.

When describing the political business environment the influencers and the overall politics as well as future potential scenarios are discussed. The Arctic Council as the voice of the Arctic States has a strong influence in the region but also China became a power to be recognized in the region through the analysis data gathered as it seems to be building up an Arctic strategy that will affect the nature of business in the Arctic area. (see Brautigam 2009; Ning 2009, 58; Jakobson 2010a, 1; Hong 2012, 50, 52.) The commercial viability of the Arctic shipping routes and the vast resources in the Arctic seems to be the driving force of development in the area (Mroczkowski 2012).

The Arctic Council sets the overall framework for arctic region whereas China offers distinctive opportunities to companies in the area to widen its influence. Therefore Finland has an interesting geopolitical position and needed knowhow that, if the potential is comprehended, can gain competitive advantage compared to other Arctic countries. As Finland is not a coastal state of the Arctic Ocean, it is not a part of the political disputes of the area and thus is more neutral partner in the region. Furthermore understanding the Finnish Arctic strategy can give clues of which directions the government wishes to develop the areas of expertise. Finland has a good basis but it also lacks in some critical areas such as the fact it does not have an all-year round ice-free ports (Tuomioja & Stubb 2012, 1). Determining the weaker points and turning them into strengths is a job that can be done through thorough environmental analysis and strategic management.

Chapter 2 introduces the theoretical framework. As strategy and strategic management are crucial for companies anywhere which is why the basics are important to understand. These however are not enough for Arctic business environment as it is evolving fast and the environment is challenging environmentally as well as politically. Therefore entrepreneurship and entrepreneurial mindset are brought up as attributes that

are desired managerial qualities. The chapter also goes through the definitions of external business environment and its political dimension as these are under the analysis in this study. The main analysis tools are introduced as well.

Chapter 3 is the methodology of the study. Here the analysis methods chosen are introduced and explained. The study is a qualitative study where the data gathered is analyzed by using content analysis method. The research process including the data collection and analysis steps are gone through and finally the quality of the study is evaluated.

The study will then focus on the political environment of the Arctic, introducing the history of the Arctic and how it has evolved throughout the years. The Arctic Council and its importance for the area as well as the overall political environment are explained.

From there on the next chapters analyze the overall opportunities and threats in the business environment as well as those from the viewpoint of Finnish companies. The strengths and weaknesses of Finnish companies are identified in order to find the strategic decisions that could be the most beneficial for them. For this to become reality, companies need to be aware of the environment in which they operate in, take advantage of the opportunities and be apprehensive of the threats in order to be able to turn some of them into advantages and to minimize the ones that cannot be turned.

2 STRATEGIC MANAGEMENT AND THE EXTERNAL BUSINESS ENVIRONMENT

2.1 Strategic management

Strategic management links business environment and operations together. Strategy originates from military and war discussions. There strategy has been used as a tool to assess circumstances at hand in order to minimize the losses of men and to secure victories. This was also one of the teachings of Sun Tzu – the first military strategists known. He lived approximately 544–496 BC and is believed to have written the Art of War which is still used in strategy literature worldwide. (Sun Tzu 2011.) Strategy was then adapted from the military context to other areas. One of these was economics and management literature since these fields need strategies for the same reasons; to give direction and vision, to organize the existing resources the most effective way possible as well as to coordinate the decisions made inside the organization and its different levels. Strategy and strategic management have become more and more important and common for managers since the 1950s. (Grant 2002, 16; Äijö 2008, 131.)

As there are many definitions and approaches, this study understands strategy as something that can be defined as creation of a unique and valuable position, involving a different set of activities and the way a company relates to its environment (Smith, Arnold & Bizzell 1988, 15; Porter 1996, 68; Barney 1997, 19). In other words, it can be said that through strategy the company defines how it is going to act to succeed. In any case, strategy involves actions and plans for the future and the aim is to create qualifications for the long-term operations and achieve sustained competitive advantage. (Santalainen 2006, 183; Äijö 2008, 133.) The actions, that a company takes based on its strategy, are to respond to the threats and opportunities arising from the environment and at the same time to take advantage of the inner strengths and fix its weaknesses (Learned, Christensen, Andrews & Guth 1969; Quinn 1980; Barney 1997, 21).

Strategy weaves the different functions in a company together and it has different levels such as national and international (Thompson & Strickland 1987, 4; Steiner & Miner 1997, 7; Barney 1997, 8). The international level means the top level strategy that is implemented to all of its units while national or regional strategy is pertaining to a single market. Ultimately strategy enables a company to see the “big picture”, to understand the long term goals and the main guidelines how to achieve them (Grant 2002, 16; Peng 2006, 486). Setting objectives and goals is the process through which the future decisions are based on in order to be successful in the present and future environments (Smith et al. 1988, 5).

Within a company strategy can act multiple roles, such as decision support, a process for communicating and coordinating, and as a target. It is important to distinguish between business and corporate strategies. A corporate strategy handles issues such as which industries a company should be in, whereas a business strategy discusses how a company should compete in a given industry or a context. (Grant 2002, 23–24, 28–30.) This study focuses on the business strategy. In many cases strategy and strategic management are used as synonyms and from here on out this study refers to both as strategy.

The theory of strategy is not unified and it has multiple definitions. This is caused by the fact that business strategy derives more from the practical applications than from theory (Grant 2002, 13, 18). These definitions are classified in different ways, including schools of thought (e.g. Mintzberg, Ahlstrand & Lampel 1998), positions (e.g. Santalainen 2006) and basic strategies (e.g. Porter 1990).

Mintzberg, Ahlstrand and Lampel (1998, 9–15) defined five Ps; plan, pattern, position, perspective and ploy, for strategy which define the term and based on which different approaches of strategic management were classified to four schools which are design, power, environmental and cultural school. Plan is first of the five Ps as strategy is usually seen as such; it gives direction and guidance of how to work and therefore it is the intended plan. The pattern refers to the notion that strategy needs to be consistent through a long period of time thus also referring to the executed strategy. Furthermore, position is about locating products in particular markets, looking outside of an organization while perspective looks inside of an organization at the ways of doing things.

As the study is interested in the external environment of companies; power and environmental schools offer more concrete outlooks than design and cultural schools. The power school of strategy focuses on all the powers surrounding to companies whereas the design school seeks to attain a fit between internal capabilities and external possibilities. (Mintzberg, Ahlstrand & Lampel 1998, 24, 235, 248.) In other words it creates strategies based on SWOT analysis of the company.

The environmental school sees companies as being at the mercy of the environment. Therefore strategy is basically a mirroring process where companies react to arising issues. It does not see companies as active players in the environment. However, the school identifies dimensions of the environment that are responsible for differences seen in companies such as stability, complexity, market diversity and hostility. (Mintzberg, Ahlstrand & Lampel 1998, 286 – 287, 289–290, 297.) The difference between the power school and the environmental school is that the power school negotiates with the environment and acts upon rising issues while the environmental school only reacts to new situations. In other words the first one is a proactive approach while the second one is more reactive approach.

Successful strategies usually have three common factors which are simple, consistent, and long term; understanding of the competitive environment; objective assess-

ment of the resources, and effective implementation (Grant 2002, 11–12). Creating strategy is a process where all relevant data is analyzed against the vision which the company wants to have. It involves exploiting the strengths of a company and the opportunities of the competitive environment whilst analyzing the possible threats and weaknesses that the company may have. (Learned et al. 1969; Porter 1980, xiii-xx; Barney 1997, 21). Strategy enables companies to show how the company creates value for its stakeholders.

In the core of the strategy process are the decisions of what positioning company is trying to achieve in the market and how it is going to do it. Defense, rapid adaptation and shaping the future are the action tactics from which to choose. (Santalainen 2006, 83, 119.) In addition to the positions, there is a choice to be made about the main strategy used in a company. These can be cost leadership, product differentiation, or cooperative strategies such as collusion and strategic alliance. (Barney 1997, e.g. 255.) In the end strategy is adaptation to the markets, competitors and to environment (Äijö 2008, 70) and at the same time clarifying goals and plans for future.

There are multiple issues that managers need to be aware of when formulating strategies. For example, a rational approach to strategy analysis is too narrow for formulating business strategies as it only analyzes the reasons behind business success and failure. It fails to see the whole picture because it is looking only the past actions and merely inside the company. (Grant 2002, 27.) Another trap when strategizing is to see it only as a positioning game which leads the company to be one step behind the competition that sees the strategy as a long-term vision. Strategy, as it is understood in this study, is not about how to position the company within the existing industry but rather how to create tomorrow's industries and become sustainably competitive (Hamel & Prahalad 1994, 40–41).

The definitional variety of strategy reflects the complexity and multilayered nature of strategic phenomena in organization. Furthermore the research on strategy in business context is still relatively young (Barney 1997, 8). Each definition or a school of thought has a different viewpoint, as has been described. In the end, environment and manager's personality often influence the strategic decisions made. The approaches that emphasize the external environment are more interesting for this study than others. Other definitions are left aside since they focus more on the internal strengths and capabilities which are all very important but they do not consider the opportunities and threats rising from outside company's walls. As such long term planning and strategic management has a highlighted importance in arctic which is an area of many uncertainties. By using scenarios as tools, companies can analyze the political environment and make strategies in order to stay competitive and profitable in the area.

After all the main goal is to build a successful strategy that combines the resources and knowhow of a company to the opportunities, competition and other challenges the

environment brings (Äijö 2008, 86). These challenges can be forecasted to some extent by using scenario planning as a tool. This is especially helpful in areas such as the Arctic where the future development is still very unclear.

2.2 Scenario planning as a tool

Foresight is applied future studies which forms information to support decision making. The aim for companies is to create a well-reasoned strategy and action plans for the long run to prepare for different possible scenarios in the future. (Malaska 2013, 19.) Scenarios are a part of this foresight and scenario building is foremost a tool that consists of concepts, operations and rules to create visions of future (Jarva 2013, 167).

Scenarios help in trying to understand what is possible and to analyze what is probable in the future. Therefore they enable companies to see further to the future. Hence it is easier to analyze whether business operations are profitable in the long run. Scenarios are created to show all probable outcomes and depending on to whom they are made for, they can be the same for an area, an industry, a company or a group of people. (Meristö 2013, 179–180.)

In this manner, scenarios are somewhat based on a SWOT analysis of a certain situation or an area. There are many uncertainties and challenges that guide the present and past decision making processes that can lead to different outcomes. (Global Business Network 2008, 2.) Hence, there are different scenarios which all could become reality, depending on decisions made along the way. Some of the decisions and solutions made can have positive outcomes for the future, such as the resolution of the border area between Norway and Russia in 2010 (Heikkilä & Laukkanen 2013, 48), while others can lead to a more unpredictable future, such as the situation between Russia and the other Arctic states since the Ukrainian crisis in late 2013.

Scenario setting has been used by the military and the business world for decades. It gives an understanding of the ways a certain phenomenon can develop and therefore gives the countries or companies time to adjust and develop their strategies. By doing so, they can also adapt to the different scenarios easier and faster. Forecasting and anticipation are both very useful and needed tools for companies at times when the market is unpredictable and there are variability and uncertainties around. The more accurately they can forecast the future the better they can be prepared for it and for other unpredictable situations. (Global Business Network 2008, 3–4.)

This is why scenario planning works well in an environment like Arctic because there are many variables and uncertainties in the area. There is not much certainty for companies or states to rely on when developing their strategies for the future. Even if only one uncertainty, the climate change, is considered, no one can be absolutely sure in

which way the change is going to go, at what pace, or what it will mean for the industries in the area. When taking into account all the other variables and the planning and investing to the area does not look as appealing. That is why the states and companies can use scenarios so that they have a plan ready, no matter which way the development unfolds.

In scenario planning a number of complete scenarios are created, mostly two to four, each of which are different and independent from the others. It is fundamentally different than pure forecasting since scenario planning does not depend on forecasting the future. Scenario planning is more of an estimation and analysis. This is beneficial since the future is very difficult to predict; especially long-term forecasts can be very vague and unreliable. (Macmillan & Tampoe 2000, 111.)

The goal for scenario planning is to assess the likely effects of each of the created scenarios and what they would mean to the company. From there the company's task is to identify actions that are necessary to survive and succeed in case of each of the scenarios. However, the future is difficult to predict accurately so, as such, none of the scenarios are completely accurate. The planning is still beneficial and forces a company to find new ways of thinking and the process may help it to become more agile, no matter what the future brings. Furthermore it has to be taken into account that scenario planning might not be for everyone. It takes time, effort, and commitment. Therefore it is more commonly used by organizations and bigger companies. Those industries or areas that have longer planning horizons benefit from this more than those with shorter ones. (Macmillan & Tampoe 2000, 111–112.) In order to develop the most accurate scenarios possible, comprehending the dynamics of external business environment is crucial.

2.3 External business environment

In order for a company to be a leader in its field it has to have a clear strategy. In addition, it needs to define both the target markets and the role it wishes to have in them. (Äijö 2008, 21.) Therefore thoroughly understanding the external business environment is crucial for success. When considering the Arctic marine industry for example, the whole world is not target market. What is it then and what kind of demand will there be in the future? Which countries are interested in being present in Arctic and for what reasons? Is there ever going to be more demand than what there is now and if so which are the companies that can benefit from the development the most? Analyzing thoroughly the business environment seeks to give answers to these questions.

Competition between companies and industries is dynamic and the task is to develop and identify the right or the best strategy for the company in order to grow and stay viable in its current industry. In other words continuous adaptation is the key. The current

strategy should be consistent with the internal and external environments of the company in order it to be successful. (Grant 2002, 16.) The environments are constantly changing and therefore the development paths can be difficult to predict (Äijö 2008, 20).

The external business environment is consisted of operational and competitive environments both of which have different elements as seen in figure 4. These environments are shaped by four global forces; demography, demand on the natural resources, globalization and climate change. On top of these there is technology which wounds through all of the forces and affects each force. (Smith 2011a, 9–21; 2011b, 9–25.)

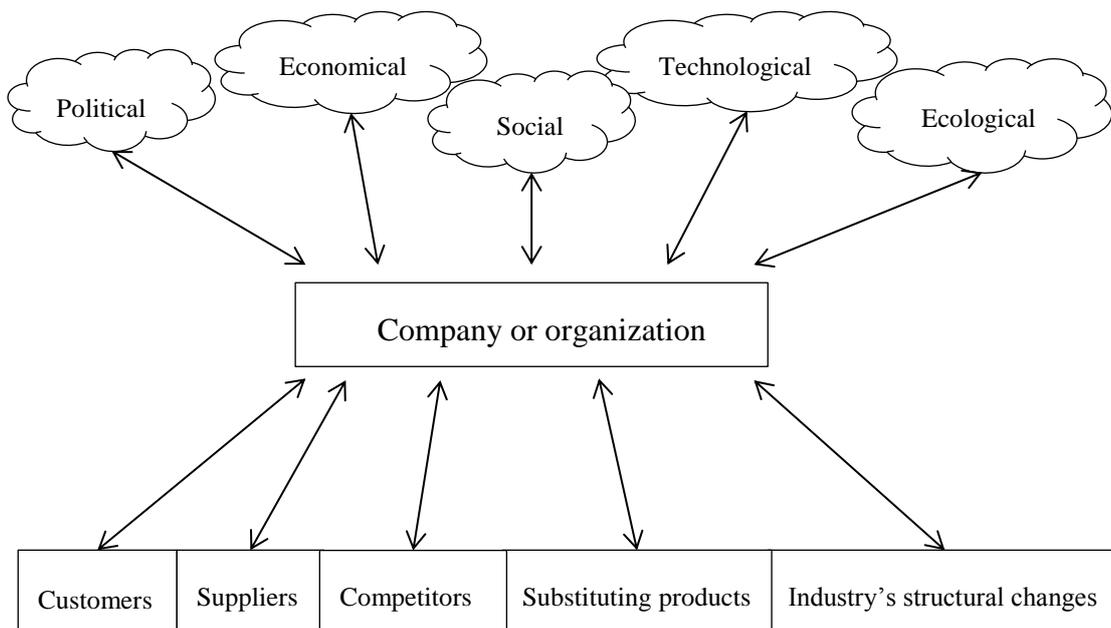


Figure 4 The operational and competitive environment of a company (Meristö 2013, 181)

In figure 4 the elements in the bottom row; customers, suppliers, competitors, substituting products, and industry's structural changes, represent the competitive environment. These are the elements against which a company is competing against and trying to gain competitive advantage to stay ahead of these players. Each element in the competitive environment is an active member in the market and thus more players can enter it, given that the market in question is an open market economy. Cooperation with suppliers is important as competitors can be competing to get the same suppliers. The same goes with customers. (Meristö 2013, 181.)

The upper row in figure 4 represents the operational environment of a company; namely the political, economic, social, technological, and ecological factors. This is the environment that one company has very limited opportunities to influence. In most cas-

es operational environment has to be taken more or less as it is and adjust to it accordingly. This is where market and strategy analysis becomes crucial. In the end, companies that are able to adapt the best, are the most likely to succeed. This means that it is crucial to constantly observe the general operational environment and especially the development in the specific industry that the company operates in. (Äijö 2008, 98.)

The political and ecological elements are extremely important and in a highlighted role in the Arctic. The environmental issues affect the politics which is the dimension focused on this study. In Arctic the sustainability and environmental issues are in focus in political discussions and agendas for the future.

Sustainable development which is considered crucial in Arctic development can be defined as “*meeting the needs of present generations without compromising the ability of future generations to do the same*” (Morrison 2006, 434). Sustainable development is carried through corporate social responsibility (CSR) in many companies. It has gained more awareness and importance in business in the past decades. The main goal of CSR is to emphasize that the impact companies have on society is taken into account in companies’ strategies. (Morrison 2006, 471.)

When analyzing any environment, it is useful to look both to its past and present. The past changes and the history of an environment and an industry help to understand the current situation. The past gives understanding of the present; why the industry looks the way it is and why there are certain rules and regulations in place that might not be common in other markets. The current environment structure and competition, on the other hand, will help to achieve better understanding of the general environment and where it is heading towards. (Grant 2002, 83.) “*Failure to anticipate and participate in the opportunities of the future impoverishes both firms and nations*” (Hamel & Prahalad 1994, 29). Seizing opportunities is crucial but at the same time it is important to see that threats can be turned into opportunities by neutralizing them (Barney 1997, 100).

External changes often create new opportunities but these opportunities are observed differently in different companies, and therefore those who know how to exploit the opportunities and see them before they become obvious, will benefit from them the most and therefore create competitive advantage for themselves. If a market is more volatile those who are more responsive and able to adapt to the changing circumstances are more successful. (Grant 2002, 227, 229; Barney 1997, 123.) In markets, such as Arctic, the responsiveness and adaptability are increasingly important.

For analyzing the external business environment there are multiple tools to be used from which the SWOT and PEST analyses are good examples of. SWOT is an extremely useful and therefore very used tool to analyze situations and environments. It is a framework that evaluates the internal strengths and weaknesses as well as the opportunities and threats arising from the external environment. (Grant 2002, 15.) In other words, it combines the internal and external environments. PEST, or environmental scanning,

is another tool for analyzing an external environment. The acronym PEST comes from political, economic, social, and technological dimensions. Sometimes it is also called the PESTEL analysis, where ecological and law dimensions are also taken into account. It focuses mainly on the external forces affecting the company over the long term in the operational environment. (Morrison 2006, 30.) This study utilizes the SWOT analysis to determine the business environment of the Arctic for Finnish companies.

The political dimension sets many limitations and opportunities for companies and is a visible part of the operational environment. As the study focuses on the political business environment, the political dimension or environment are gone through in more detail.

2.4 Political dimension in the operational environment

No company operates in a vacuum which is why the political environment, as a part of the whole external environment, is important to be considered in all strategic decisions (Barney 1997, 500). After all, strategic management is all about pursuing goals and visions from inside a company and at the same time aligns these with the environment it operates in (Higgins 1983, 3). This also indicates that the aim is to devise a plan that creates long term viability which is increasingly important in highly uncertain environments (Santalainen 2006, 27).

Politics has an important role in society. The aim is to accomplish given goals without physical confrontations. (Mintzberg, Ahlstrand & Lampel 1998, 252.) On the macro level, politics can change the value of an investment. On the micro level, political power can influence particular industries or even particular companies in a given industry. (Barney 1997, 500–501.) Institutions, which are the base of the political environment, are set up to reduce the uncertainties of the external environment. Nations are essentially institutions as well. The role of institutions is to give a sense of stability to people and guidelines how to behave accordingly. (Loasby 1999, 43–44.) Institutions have power over people and companies who accept the authority which they usually do because they have incentives to do so.

Institutions have different functions; some take care of matters and issues so others do not need to do so, others have constrictive powers and may affect or even determine the decisions made elsewhere. However, these are often accepted and even welcomed by the society because they serve the greater good. (Loasby 1999, 47–48.) Therefore authority can be described as *“the character of a communication in a formal organization by virtue of which it is accepted by a contributor to or “member” of the organization as governing the action he contributes”* (Barnard 1938, 163).

The institutions stabilize economies by giving those frameworks in which to operate. Furthermore each company is stabilized by the created structure of procedural rationality which makes companies interconnected. (Simon 1982, 389–391.) The rules of competition come from the institutions of a market but as the market develops, so can the rules. All of these elements are continuously changing in the overall market place. (Loasby 1999, 116.)

There are several institutional pressures for companies to follow such as coercive, mimetic and normative isomorphism. Coercive isomorphism stands for all the standards and regulations; meaning both general regulations from the governments that are the same for all and the industry specific rules and regulations. These have to be followed, usually by law. Mimetic isomorphism means borrowing and imitation which are common in business, one example being benchmarking. The last one, normative isomorphism, means all the strong influences people get from professional expertise. There are several responses or tactics to treat these institutional pressures in a company, such as acquiescence, compromise, avoidance, defiance, and manipulation. (Mintzberg, Ahlstrand & Lampel 1998, 294–296.) Not all of these tactics are recommendable, such as manipulation, but each company must define their own responses to the different institutional pressures. For example, there is not much to be done against laws, rules, and regulations in which case acquiescence is the best tactic. The chosen tactics are usually a part of company's strategy.

Political environment can be thought to have four players which are incumbent public agent, contractor, political competitor, and the public. The incumbent public agent is responsible of choosing the nature of the contract, which a contractor then accepts, or rejects, while political competitor can challenge the contract at hand. Then the public decides to retain or to replace the initial contract. This basically describes how the public system works. Furthermore there are two main types of contracts made; public and private. The private contracts are made between two private actors while public contracts are made between a private actor and the other party is a state or a state institution. (Spiller 2009, 52–53.)

Public contracts often hold hazards from which governmental opportunism and third-party opportunism are the main ones. Governmental opportunism arises from governments who become overly optimistic and may change the rules in negotiation or execution phase which makes companies the weaker partner and they have very little power to influence over these possible changes. Therefore there is third party supervision which enables the society to function democratically. Third-party opportunism on the other hand means that the third-party may have expectations that cannot be met. (Spiller 2009, 48–51.)

Political risks are always present wherever companies operate but those risks tend to be greater in places with history of political instabilities (Morrison 2006, 245). In these

places where the political risk is greater, the business opportunities tend to be significant too (Barney 1997, 503). Bigger risks often mean bigger profit opportunities as well. There is always a certain amount of uncertainty in any given market which makes planning activities more challenging but crucial since there needs to be a plan in case of something unexpected happens (Loasby 1999, 117). Table 1 below lists the different political risks in global operations. It is categorized into risks arising from the political economic environment, domestic economic conditions, and external economic relations.

Table 1 Political risks in global operations (Dichtl & Koeglmayr 1986)

The Political Economic Environment	Domestic Economic Conditions	External Economic Relations
1. Stability of the political system	1. Size of the population	1. Import restrictions
2. Imminent internal conflicts	2. Per capita income	2. Export restrictions
3. External threats to stability	3. Economic growth over the last 5 years	3. Restrictions on foreign investments
4. Degree of control of the economic system	4. Potential growth over the next 3 years	4. Freedom to set up or engage in partnerships
5. Reliability of country as a trade partner	5. Inflation over the last 2 years	5. Legal protection for brands and products
6. Constitutional guarantees	6. Availability of the domestic capital markets to outsiders	6. Restrictions on monetary transfers
7. Effectiveness of public administration	7. Availability of high-quality local labor force	7. Revaluation of currency in the last 5 years
8. Labor relations and social peace	8. Possibility of employing foreign nationals	8. Balance-of-payments situation
	9. Availability of energy resources	9. Drain on hard currency through energy imports
	10. Environmental pollution legal requirements	10. International financial standing
	11. Transportation and communication infrastructure	11. Restrictions of the exchange of local and foreign currencies

The political risks in table 1 are always something to be considered but those have varying degrees depending on a given market. For example in some markets there is plenty of energy resources while in other markets there are significant challenges to get enough of them to even run normal operations. The political risks in the environment and the dynamic nature of the Arctic call for special abilities from the managers. One important one of these is entrepreneurship.

2.5 Entrepreneurship complementing strategy

Strategy itself is not enough in areas such as Arctic due to its dynamic environment. The long-term planning cannot take into account all the short-term events that may occur and have not been considered thoroughly in the strategy. Therefore managers and leaders of successful companies usually have an entrepreneurial mindset which enables them to think outside the box and react to the changing environment accordingly. After all, companies cannot rely on luck; they need people who are able to recognize opportunities when they are not evident and have understanding of the direction and flexibility needed to be able to exploit these opportunities (Grant 2002, 10).

Generally companies have strategies and are exploiting strategic management but that is only one part of the business. In other words it is the *having* part of the strategy. Entrepreneurship strives to be the *doing* and *being* parts. Doing is the way the strategy is executed and the ways the company answers to the challenges it faces from time to time. The being part is the important one where the plans and actions are reflected and analyzed as to extract the important lessons from them. Whether the actions were a success or a failure, reflection enables managers to see forward, take corrective action and drive future growth. (Santalainen 2006, 32–34.)

Entrepreneurship is essential for the economic performance to be successful (Loasby 1999, 47). It is not only about being able to see ahead, adapt to the changing environment, and exploit arising opportunities. It is also about being able to see behind, to learn from experience, and to use the existing knowledge successfully. Managers with these skills can successfully face alternative futures. (Santalainen 2006, 27, 34.) Therefore many entrepreneurs are characterized as people that are continuously trying to go forward. Creating strategic vision and achieving new concepts are characteristics or actions that are in close relationship with these individuals (Mintzberg, Quinn & Goshal 1998, 614). Entrepreneurs may fail occasionally but they always keep on going. Their consistency and learning from mistakes enables them to become even better in their future endeavors.

Santalainen (2006, 27) uses the term strategic thinking to describe entrepreneurship essentially. According to him strategic thinking is “*an ability to use your imagination in such a way that you can exploit strategic frames and tacit knowledge to go beyond conventional analysis challenging alternatives that are seemingly obvious*”. It should be used more extensively by the top managers in their business operations because it enables them to see the bigger picture and understand the interconnectedness of different aspects. Strategic thinking or entrepreneurship can therefore be seen as a tool to be used in highly uncertain environments to create long-term viability and to complement the long-term strategy.

It is said that the future can be found “*in the intersection of changes in technology, lifestyles, regulation, demographics, and geopolitics*” (Hamel & Prahalad 1994, 95) which leads to the conclusion that entrepreneurship is needed to figure out and analyze these intersections. This intersection is visible in the Arctic where all of these factors are in constant change. All external changes create possible opportunities for profit and therefore competitive advantages arise from the ability to respond to these changes and entrepreneurs have this ability to seize these opportunities. (Grant 2002, 228.) Seizing new opportunities is essential but at the same time it is important to protect the unique resources that a company has. This way the opportunities can be turned into competitive advantages. (Santalainen 2006, 147.) Many opportunities are about recognizing and discovering new and better ways to compete in a given market or industry (Lindström 2003, 26).

Once there are clear signs of the way the future will appear, the aim is to learn faster where the future demand truly lies than the competition. Therefore in many cases the most crucial resource might not be money but talent management. (Hamel & Prahalad 1994, 237, 245.) One of the great qualities is that talented managers can then learn along the way and adapt to the emerging situations rather quickly. (Mintzberg, Quinn & Ghoshal 1998, 614.) After all, competitive advantage is not a stable structure. It needs to be continuously developed and nurtured otherwise the competition will catch on and go beyond either by imitating or innovating something new. (Grant 2002, 235.)

The sustainable advantages that company achieves are those where the company has successfully matched the internal strengths to the opportunities present in the industry (Grant 2002, 415). Strategy gives companies vision, goals and a set toolkit but it cannot think for itself which is why there is a need for the entrepreneurial mindset. The managers have the strategy as a guideline of where to go but as unexpected situations occur, they can navigate through or around them, minimizing the possible consequences. If managers truly have entrepreneurial mindset, they can also spot opportunities in unanticipated events and turn them into competitive advantages.

3 METHODOLOGY

3.1 Qualitative research approach

The study was conducted through qualitative method. This method was chosen after a careful consideration and evaluation of the issue and purpose of the study. Qualitative approach enables a deep understanding and overall analysis of the Arctic. Quantitative approach would have evaluated more how strong certain opportunities or threats are for companies but this study's objective is more in comprehending the situation than evaluating it in quantitative methods.

Qualitative methods in international business research have increased in past decades. The shift from the more common quantitative research has been due to the fact that qualitative research can explain the reasoning and motives of phenomena better. Understanding and analyzing phenomena and organizations has become more important. Many times these have to be looked through one case or situation which cannot be done by using the quantitative method effectively. Therefore the emphasis in qualitative studies is more on transferability than in generalizability. (Marschan-Piekkari & Welch 2004, 18.)

In this study, the aim is to understand how the political environment in the Arctic affects a Finnish company's strategy. The external environment of the company and the different strategic management tactics can be analyzed through existing literature. Furthermore the context of the study is the Arctic which is still highly political area and the companies there are under conflicting strategies of different nations and organizations. For companies this can offer both opportunities and threats but if the opposing strategies are understood, this study could help companies to navigate and use those strategies in their own strategy-making process to their advantage. The operationalization of the study is described in table 2 where the objective of the study is divided into sub-objectives.

Table 2 Operationalization of the study

Objective of the study	Sub-objectives	Background theory	Themes
To understand how the political environment in the Arctic affects a Finnish company's strategy	Describing the political environment in the Arctic	Political actors and their influences Institutional theory Entrepreneurship Scenario planning Governance issues	Arctic Council Arctic States Political environment Skills needed in Arctic The meaning of environments to the companies
	Analyzing opportunities and threats in the political business environment of the Arctic	Strategic management Dynamic environment SWOT	Strategy as a tool China's agenda and motives Differing motives
	Analyzing how Finnish companies could develop their strategic management plans in order to navigate successfully in the Arctic	Opportunities and threats Strengths and weaknesses Competitive advantage	Future potential and challenges Development paths Finland's Arctic strategy

Table 2 describes the different theories and themes of this study. Each of these has a specific part in understanding the phenomenon and evaluating the possible future scenarios for Finnish companies. After the initial operationalization the next step was to collect the data for analysis.

3.2 Data collection

The data collection began by defining which data is being analyzed, how it is defined and where it is taken from. This study does not have strong initial hypothesis to be tested and neither is it easily transferred to other situations considering the unique nature of the Arctic. Thus the research design is to estimate the situation and to try evaluating the development of it in the future. The steps in the research design are as seen in figure 5: data making, data reduction, inference, and analysis. (Krippendorff 1980, 26, 49–52.)



Figure 5 Research design (Krippendorff 1980, 49–52)

In the data making phase the first thing was to decide the type of data for the analysis. The objective of the study supported the choice of secondary sources not only for the theory but also for the analysis. Thereof the search engines and data bases from where the information would be gathered were selected. The ones chosen were the EBSCO Host database and Google. These were chosen because the study covers a number of source types. Different types of sources were needed to describe the continuously changing and evolving topic since all the relevant information might not be available in the academic journals yet. The Arctic strategies have not been studied from the perspective of a company's strategic management much and therefore organizational reports, news articles and speeches were important source material as well as the academic journals and books.

After deciding the place where to search the source material, the next phase was to determine key words and the main ones used were; Arctic strategy, Arctic business, Finnish Arctic knowhow, Arctic Council, and China in the Arctic. These were used also in different combinations. The purpose was to find comprehensive data from the different sources in order to understand the bigger picture and the interconnectedness of the different actors. Therefore snowball sampling was used as well. It means that once a good source was found, its references were studied and searched for further information if applicable. At times the data collection process was challenging because the sheer amount of the different organizations operating at the Arctic.

There are several things that must be comprehended previous to starting to gather the needed empirical data. First of all, messages do not have one single meaning. Readers from different backgrounds can interpret the same text in a different manner. Secondly, those meanings do not need to be shared. The writer has his own view of the world and

therefore the style of writing is relative to the writer. Lastly the message is more likely about some phenomenon rather than the observed situation. Therefore also the context of the data is important and all of these need to be considered when evaluating the validity of the study. (Krippendorff 1980, 21–23.)

This fact led to the data reduction phase where the initial list of articles and other data needed to be reduced. As the data should be representative of the real phenomena, the articles were read and those which did not discuss strategy or the future development of the Arctic were cut out. There were many sources which discussed the general opportunities and development paths in the area or the climate change and how that might affect the traffic and the routes, Northwest Passage and Northern Sea Route, in the near future. Some of these were not taken into account because they did not help to understand the main issue and phenomenon or they were too detailed or specific to unrelated issues. The total number of analyzed materials were 59, including books, press releases, academic journals, articles, news and university publications.

The source material is sampled from both academic sources and from mass messaging. In mass messaging the audience is relatively large and undifferentiated whereas in the academic publications the target audience is more differentiated and usually smaller. As there is not much previous theory considering the business opportunities in Arctic taking into account the political environment, the study used the data as a reference point to improve competitiveness in the area with the support of theory. (Neuendorf 2002, 22, 74, 95–96.) Furthermore as China and its objectives became relevant for the study through the data collection phase and the country does not an official strategy, the strategy China has used in Africa was taken into account as it seems to follow the same pattern. Therefore theory of the Chinese African strategy is used as a reference point when analyzing the recent actions of the country in the Arctic.

The material used is a good representation of the topic because it reached the saturation point. There were more sources available but they either repeated the themes or they went to detail of issues that were not significant for this study. Each sub-objective has more than one source in order to confirm and to check if there were differing opinions. When the data was selected the next step was to begin analyzing it through content analysis methods.

3.3 Content analysis

As there are different research methods, there are also different ways of analyzing the empirical data gathered. One way of analyzing is not better than the other since the way of analyzing data is chosen according to the objective of the study. It is common across the qualitative study field that the empirical data is gathered in various steps which

mean that there can be different analysis methods at place at the same time. Thus analysis is made throughout the research process. (Puusa & Aaltio 2011, 114.)

The main point is to interpret data and to understand the bigger picture from the empirical data at hand. In some cases there might be leads and different clues about the phenomenon and the task for the researcher is to combine them into a clear entity which represents the real phenomenon. The entire time one has to keep in mind that each decision and each interpretation needs to be well-reasoned. (Alasuutari 1996, 31–33.) The analysis needs to be systematical and open so the audience can estimate the trustworthiness of the overall process as well as the conclusions that are made (Puusa & Aaltio 2011, 116–118).

There are three reasoning approaches to studies; induction, deduction and abduction. It describes the relation between theory and empirical data. Induction has a starting point that there is no hypothesis. The objective is to be free from possible limitations and delusions. Deduction on the other hand strives for finding data to support given arguments or hypotheses. Theory and the analysis should be in relation to one another. Abduction is the combination of induction and deduction. (Eisenhardt, 1989, 539.)

This study is conducted by using qualitative content analysis which can be briefly defined as systematic and objective analysis of message characteristics (Neuendorf 2002, 1). Content analysis makes replicable and valid inferences from different data to their context possible. As a method it means that researcher finds already available data on the subject at hand and analyses it from a determined perspective. The meanings behind the symbols and texts are then under examination. (Abbott & McKinney 2013, 316–320.)

Since data in content analysis is from secondary sources, it needs to be noted that it is always created in some context, this context needs to be recognized. The surrounding context affects the way the data is constructed. As in any research, the research design needs to be defined. Content analyses are context sensitive and the research designs usually sequential, in other words, they have steps which they follow. There are three types of designs in content analyses; designs to estimate, to test the substitutability and designs to test hypothesis. (Krippendorff 1980, 21–23.)

In content analysis there are three ways to have relation between theory and empirical data; theory can provide predictions of the effects of messages, of the origins of messages, and of the relationship among the variables. In this study, theory offers predictions of the effects of messages as well as tries to understand the relationship among the different variables. As this study aims is to understand certain circumstances and what opportunities they may hold abduction is applied. (Neuendorf 2002, 99, 107.)

Content analysis was chosen because the objective of the study is to understand and analyze, and the most effective way to do this was to analyze existing message meanings (Silverman 2000, 98). To understand the political business environment that Finn-

ish companies operating in the Arctic face and how it can be linked to a company's strategy, there is a need to get to the motives and issues behind the phenomena. An effective way to do this was to study articles, journals and any other sources that described the situation.

Another way of conducting this research would have been to interview key actors, in this case managers of Finnish companies operating in the Arctic and politicians involved in the Arctic Council, namely Prime and Foreign Ministers of the member states as well as Chinese government officials. This was not the way chosen for two reasons; first of all the subject of strategy is something that many government officials and company managers may be reluctant to discuss about in detail because it might reveal their long-term plans and competitors could exploit those. Secondly, there was question of available resources; the persons who would have been contributing to the study are in high positions with very limited time on their hands. Furthermore, they would have been from different nations which created monetary limitations for the researcher. All in all, content analysis gives a more consistent view of the studied issue.

The method of content analysis is very practical in social sciences where the researched topic can be analyzed without having noticeable influence on it (Haller & Ralph 2001, 229–253). This adds up to the goal of getting data and interpretations that are objective and reflect the actual situations. Interpretative analysis is one form of content analysis where the focus is on trying to formulate an understanding or a theory from observing and analyzing messages. In this analysis type the researcher is assumed to be a competent observer of the phenomena. (Neuendorf 2002, 6.)

The content analysis was further analyzed through hermeneutic method which means that the key methodological issue is to understand the situation or the environment rather than testing hypothesis. Therefore the interpretations and the understanding of the situation form through process of the analysis. The hermeneutic process is shown in figure 6. After going through the hermeneutic process the data is ready to be utilized in the research. (Forster 1994, 150–155; Neuendorf 2002, 50–51.)

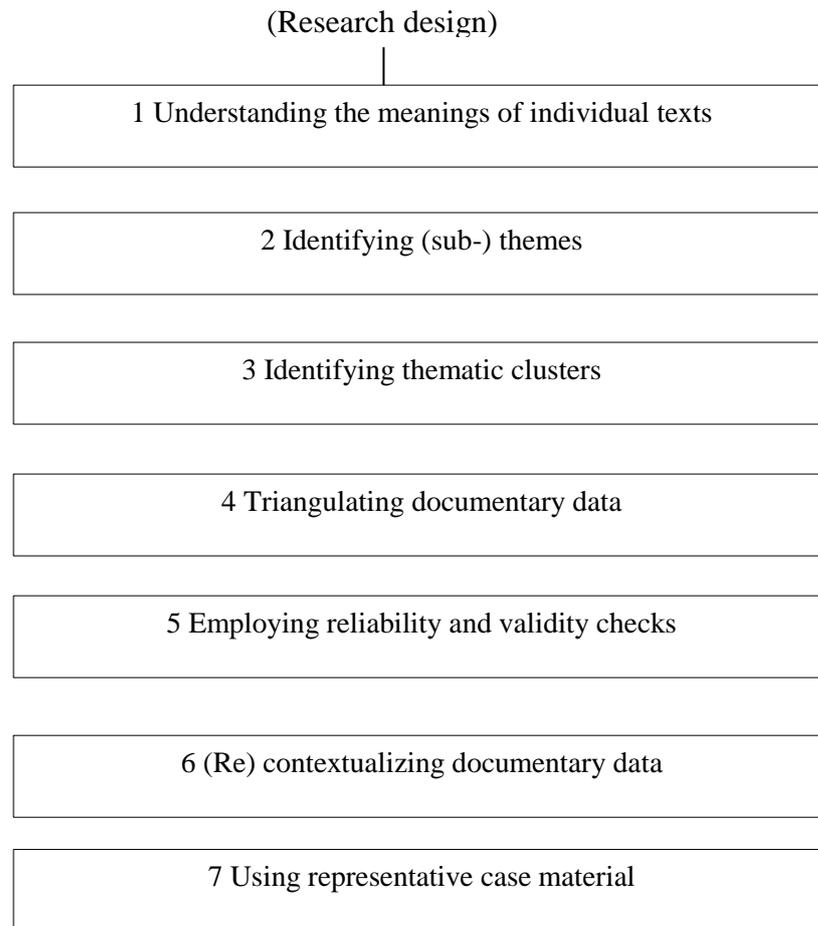


Figure 6 The hermeneutic process (Forster 1994, 151)

In the hermeneutic process described in the figure 6, the data goes through a conceptualization process where variables are determined after which the chosen variables are further analyzed and sorted into subthemes or in this study sub-objectives. Triangulating is the biggest task where the existing material is reviewed and the aim is to see whether there can be a census of the content. (Neuendorf 2002, 50-51.) While analyzing the data it is important not to lose the original meaning of it. The context needs to be kept in mind at all times. (Krippendorff 1980, 49–52; Puusa & Aaltio 2011, 118.)

It can be said that content analysis is about finding and identifying the special characteristics of messages as objectively as possible. (Holsti 1968, 608.) These characteristics or units, which are message components against which the variables are measured, are then analyzed and they serve as the basis for reporting. These units can be any components of a message, depending on the type of analysis that is conducted. Examples of units are words, themes, time periods or characteristics. In other words messages and

communication are broken into pieces which then are interpreted and the analytical elements can then be used in combination as well. (Carney, 1971, 52; Neuendorf 2002, 71; Berg 2004, 267, 273–274.)

The analysis itself was done in three steps; first was the initial reading of the sources and note taking phase, second the data was gone through again arranging it according the theme and time period. There were clear themes that arose from the source material most of which were supporting one another (table 3). The data was formed into comprehensive entities to form understanding and interpreting the messages to understand the development path and making suggestions for future actions. During the process a bigger picture and understanding began to form and the purpose of the study began to appear more significant.

Table 3 Content analysis themes

Content analysis themes
Finnish Arctic industry
Development of the Arctic Council
Influence of the Council in the Arctic
China's agenda for the Arctic
China's previous strategies overseas
Development patterns and attitudes towards the Arctic as a business environment

The time period chosen was theme specific; the Arctic Council related themes were looked at mostly in decades while China related themes required more specific time periods which were years. This categorization was chosen because it makes clearer picture of the actors involved in Arctic. Furthermore the development has been quite rapid in the past decade or so and the time classification helps to see the route the development has gone.

3.4 Quality of the study

In research it is important to recognize limitations. Research is about a certain, chosen topic and from a specific viewpoint and therefore cannot include everything related to the topic. It will not extend beyond certain boundaries that are set for the study. (Krippendorff 1980, 26.) In this research the future development of the Arctic is highly dependent of the development of the climate change (Smith 2011a, 6). However, here the focus is on strategy, political environment and the economic development of the Arctic and therefore the climate change is set aside. It is assumed to continue in the same pace as thus far.

The topic itself excludes many other topics that could have been studied. The operational and competitive environment both include many other interesting factors that influence the strategic decisions of companies but these were left aside. The Arctic is a challenging area to study due to the sheer amount of organizations and non-governmental organizations operating in the region. Not all of these actors were taken into account and there were important decisions to be made which ones has the most influence in the area and why. Each new reference brought up new actors and it was a conscious decision not to look into detail to each of them due to the time, resource, and relevance limitations. However, there could be some information that was overlooked due to this decision.

Another limitation is about the chosen area, the Arctic. There is strong evidence of the economic development in the area but there are no guarantees that it will actually happen. The relations between Russia and the other Arctic countries, and the climate change cast a shadow on the development and it could potentially freeze the development. This needed to be taken into account. However, there are opportunities and the will of developing the Arctic and this development is not solely dependent on companies. The overall global economy and political relations play a crucial role in the development. This study has a positive outlook on the future while understanding the uncertainties.

Traditionally the validity and the quality of a study have been evaluated by the terms of the quantitative study but those methods do not work in the qualitative field. Therefore ways of measuring the quality of a qualitative study have been developed. Many of these qualitative methods are still discussed in the research community as many researchers are not sure how to react to the question of validity in qualitative study. This comes from the fact that in quantitative studies the aim has been on developing objective results. Qualitative research on the other hand is subjective by nature. The truth is not objective; rather it is one viewpoint of a certain phenomenon. (Tynjälä 1991, 387–388, 390.) In this study, the criteria developed by Lincoln and Guba (1985), is used. They evaluate the trustworthiness of a study by four criteria: credibility, transferability, dependability and confirmability. (Lincoln & Guba 1985, 300–319.)

Credibility describes the confidence in the truth of the findings. It is important to every study and a way to make it more so is to make sure that it gives representation of the real phenomenon. To make the content analysis more credible, it is necessary to have knowledge about the origin of the data. The data is always written in some context and to a certain audience and so it reveals assumptions that lie behind the data. The better the researcher takes these assumptions into account the more she can understand the actual phenomena under study. (Krippendorff 1980, 27.) Therefore source criticism is crucial in content analysis. It is essential to know who has written the message, where and for what purpose.

Being honest and reflexive throughout the process of research brings more credibility to it (Neuendorf 2002, 141, 146; Booth, Papaioannou & Sutton 2012, 4). Credibility of the study improves also when the approach to the literature is systematic. The systematic approach also means that the evidence is thoroughly searched and the conclusions are not based on two articles alone but an extensive analysis. (Booth et al. 2012, 32, 70.)

All of these steps have been taken into account in this study and the limitations have been understood from the beginning. The empirical data has been triangulated in order to ensure that the truthful development is found, source criticism is used in each reference used, and the analysis has been extensive. Furthermore it has to be noted that a part of the data was originally in Chinese in which the researcher is not competent enough to translate. Therefore in these cases there was the need to rely on other researchers and their competence in translating the findings. There is a risk for interpretation mistakes and translations errors but there were no possibility to comprehensively understand the original texts so this limitation had to be accepted as those sources were essential for the study. As previously mentioned, triangulation helped to ensure that the translated texts were professionally translated.

Transferability on the other hand shows how the findings have applicability in other contexts as well. This was more challenging in this study as the Arctic is quite unique area. The study is quite context specific but it describes phenomenon, challenging operational business environment, which is not as unique. The study offers tools and methods through which the same type analysis can be done to other business areas or with different environmental point of view. Furthermore, in order to increase the transferability, there is detailed description of the context and research process available. The study findings can also be transferred to some degree to the other elements of the competitive or operational environments and be amended to fit the specific element.

The third evaluation criterion was dependability which shows how the findings are consistent and could be repeated. This can be achieved by finding the saturation point. That is the point after which new data does not add anything new to the research. The data used should represent the real phenomena and therefore the saturation point is important to find when searching and analyzing data. (Krippendorff 1980, 69.) The source material for the analysis is secondary which means it is interpreted information. To decrease errors in this, the saturation point and contradicting texts were crucial in estimating the trustworthiness of the data. The saturation point was found for each research objective and sub-objective to ensure the dependability of the study.

Confirmability is the last of the evaluation criteria. It describes the degree of neutrality in the study which is the aim for the research process. Content analysis is all about validating since each decision has to be determined how valid it is. Objectivity is always challenging in qualitative study but the goal was to stay as objective as possible, in other words, not to assume anything without evidence arising from the empirical data. Fur-

thermore the decisions made are all described and give reasoning to. This helps the readers to analyze and understand the reasoning as well as evaluate the quality of the study.

As the methodology and the analysis process have now been gone through, the next chapters introduce the empirical data. The empirical data has gone through the analysis methods described in this chapter and the limitations are considered throughout the process in order to ensure the quality of the study.

4 ARCTIC'S POLITICAL ENVIRONMENT

4.1 History of the Arctic

The political environment is a part of company's operational environment. In the Arctic this environment is complex and has a variety of factors influencing it. The overall importance and geopolitical location of the Arctic makes the region important for many countries, as there lays vulnerabilities which are to be considered. The line between threats to the peaceful cooperation and commercial opportunities is thin. The President of Finland, Sauli Niinistö (2013), holds the managing of the development of Arctic as a crucial issue for the area itself but also for the rest of the world. *"The region must understand its global position and responsibilities, while outside stakeholders must respect the rights of the Arctic states and seek to work with them smoothly and effectively"*.

To understand the current political environment, the history of the region needs to be studied. Claims to the territories of Arctic date back to the beginning of the 20th century and they are mainly between Russia, the United States, Canada, Norway and Denmark. The claims are only of areas that the countries could have legitimate claim by the UNCLOS and the disputes arise as multiple countries has that claim according to the law. The disputes have resurfaced again after 2008 due to the rate of the climate change which will enable more resource-extraction and economic opportunities. (Cressey 2008.) However, the disputes are not only between the Arctic States anymore as some non-Arctic actors are interested in competition possibilities. There are areas in Arctic that do not belong to anyone; therefore belonging to all as interpreted by some nations. Non-Arctic actors have raised the question, should not everyone be able to have access to these areas and have the rights to claim them. (Hong 2012, 50.) No consensus of these issues has been reached yet and naturally the Arctic States are against of this claiming policy that would allow non-Arctic actors to own Arctic area.

The development of the arctic region and the cooperation of the Arctic States are commonly said to have started in a foreign policy initiative taken by Soviet Union's President, Mikhail Gorbachev, in 1987. Before that Arctic was one of the most sensitive and volatile areas, mainly due to the tensions from the Cold War. In his speech Gorbachev announced his plans which were to decrease the political tension in Arctic and began de-militarization to promote cooperation between the eight Arctic States. The environment and its protection became the new focus. (see Young & Chekasov 1992, 22; Keskitalo 2007, 194; Heikkilä & Laukkanen 2013, 62.)

In the speech, Gorbachev talked about wide cooperation instead of military actions. His speech was well received in the neighboring countries which soon followed suit and

decreased their military presence, replacing it with scientific exploration and international cooperation (Heikkilä & Laukkanen 2013, 62–63). The military importance began to decrease in the two decades that followed the Cold War but the strategic importance of the area especially for Russia and the United States has not decreased over the years (Trenin 2014, 3–4).

It was evident that security issues were the ulterior motive behind the speech. Gorbachev wanted to invite others to a dialogue so that the tense international relations could be stabilized. The Arctic was a crucial area for this since it is the place where the East and West meet. There were six suggestions all in all that Gorbachev made for Arctic; nuclear-free zone, restrictions on naval activity, cooperation in developing resources, scientific exploration, cooperation in environmental protection, and opening up the Northern Sea Route. (Gorbachev 1987.)

In a way the speech also marked the starting point of the Arctic Council which was set up in 1996 as an intergovernmental organization that promotes the cooperation and sustainable development in the Arctic. (Arctic Council 2014.) Since 1987 the development in Arctic has been peaceful and scientific driven; expeditions, geography and biology focused studies done in cooperation. Arctic is a place, where the climate change is very evident, therefore the area has been used in trying to forecast the direction and rate of it. (Gorbachev 1987; Smith 2011a, 6; 2011b, 129.) Sustainable development was the key issue in the Arctic at this stage.

The more the climate change affects the Arctic the more challenges it will bring to economic, military, and environmental areas. Before the 21st century there were fewer opportunities and therefore fewer operations that were possible (Jakobson 2010a, 1). Thus there was only a little to be done in the area and it was not profitable to begin operations there. As the environment becomes more accessible and available, the opportunities are more reachable. Furthermore the technology advancements quicken the development of the area and trade often increases competition and rivalry.

4.2 Strategic and political importance of the Arctic

In general there is a tendency to have more complicated alliances whenever there is more than one superpower involved. Superpowers bring more intense rivalries for trade, investments, and natural resources. (Smith 2011b, 43.) The Arctic States include two superpowers, Russia and the United States. Furthermore China, as another superpower, is consistently trying to increase their presence in the Arctic. That is a total of three superpowers interested in one area.

Trade, investments and competition over natural resources has a tendency to cause more rivalry and competition which might be a reason for the Arctic Council to be care-

ful about economic development. This added to the fact that the governance of the area is fragile; the development might shatter the cooperation structures that have carefully been created. Disputations and areas that do not belong to anyone have been the biggest concerns in the past. Now the governance issues of the sea routes and the rules and regulations of navigating in the arctic waters have gained more attention which is why the Polar Code was introduced in late 2014. (Valtioneuvoston kanslia 2015, 32; IMO 2015.)

Due to the strategic importance of the Arctic area, the Arctic States have formulated their own Arctic strategies where they define their own interests and goals for the region (Heikkilä & Laukkanen 2013, 68). The strategies are important because even though the Arctic issues are regional, they still have global impact in many industries. These states are not the only ones to that have arctic strategies as there are multiple non-Arctic nations and organizations that have a strategy for the region as well. In this study the main focus is on three strategies; the common strategy developed in the Arctic Council, the Finnish Arctic strategy, and the possible Chinese Arctic strategy.

An issue that complicates the political environment has been exactly the sheer amount of different organizations and actors. The political field is complicated because it is difficult to form a clear picture that would explain the interrelations and spheres of influence of each of the actors. This is both a good and a bad thing for the economic development in the area (Heikkilä & Laukkanen 2013, 62). It is beneficial because there are many organizations and agreements that enable new opportunities and development in the area economic wise but, at the same time, there are many opposing structures that see only the negative impacts that the economic development could have for the area. Therefore these organizations try to hinder the development. Examples of these are activist groups and environmentalists who try to stop the economic advancements, no matter what the actual ecological impacts of it would be. Thus there are multiple restrictions and laws that bind companies and the volume and structure of their operations. Agreements and actors most likely to impact the commercial development of the Arctic are introduced next.

Firstly, there is Arctic Economic Council, which is primary forum for interaction between the Arctic Council and the wider circumpolar business community. At the moment it focuses only on large industries, mainly energy and mineral extraction. This should be expanded and one way to do this would be to make the Arctic Economic Council an observer in the Arctic Council and define the relationship between the two councils. Currently it is not quite clear what is the distinction between the two councils but if their work could be defined and the governance clarified this could clarify the overall political and economic business environments in the region. Furthermore these two together could serve as a forum where corporate social responsibility (CSR) frameworks would be defined for Arctic as well as promoting sustainable business practices which would serve the goals of both councils. (Collins et al. 2015a.)

One of the newer cooperation development opportunities comes from the new Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada. The negotiations ended in 2014 and the agreement will take effect soon. The agreement will remove over 99% of tariffs between these two economies and it will bring multiple new opportunities for Finland, especially in the shipbuilding industry. (Koskinen 2014; European Commission 2015; Foreign Affairs, Trade and Development Canada 2015.) How the agreement will affect the other Arctic States that are left outside of CETA is not certain. Certainly it could weaken the bargaining power of those countries. Finland could be the biggest beneficiary from the agreement from the Arctic States. Another countries would be Sweden, Denmark and Canada of course, the rest are left outside of the agreement.

As mentioned earlier, the Arctic Council is the main political influencer in the region and therefore contributes a lot to the overall political environment. Next the Council is introduced in more detail in order to understand its effect and also limitations.

4.3 Arctic Council

“The Ottawa Declaration of 1996 formally established the Arctic Council as a high level intergovernmental forum to provide a means for promoting cooperation, coordination and interaction among the Arctic States, with the involvement of the Arctic Indigenous communities and other Arctic inhabitants on common Arctic issues, in particular issues of sustainable development and environmental protection in the Arctic” (Arctic Council 2014).

In order to achieve the abovementioned cooperation, coordination and interaction the Arctic Council is comprised of the member states and permanent participants which represent the indigenous communities and inhabitants. Only states that are a part of the Arctic can be full members in the Council but, in addition, there are observer states that have applied for the status, and been accepted. Observer states are reviewed biannually in the Ministerial Meetings. Besides these there are also a number of intergovernmental, inter-parliamentary and non-governmental organizations that have been given observer statuses. The list of the members and observers is found from table 4 and the states are also shown in figure 7. (Arctic Council 2014; Knecht 2015.)

Table 4 Arctic Council members and observers

Member states	Permanent Participants	Observer states	Observer organizations
Canada	Arctic Athabaskan Council (AAC)	France	International Federation of Red Cross & Red Crescent Societies
Denmark (incl. Greenland and Faroe Islands)	Aleut International Association (AIA)	Germany	International Union for the Conservation of Nature
Finland	Gwich'in Council International (GCI)	the Netherlands	Nordic Council of Ministers
Iceland	Inuit Circumpolar Council (ICC)	Poland	Nordic Environment Finance Corporation
Sweden	Russian Association of Indigenous Peoples of the North (RAIPON)	Spain	North Atlantic Marine Mammal Commission
Norway	Saami Council (SC)	United Kingdom	Standing Committee of the Parliamentarians of the Arctic Region
the Russian Federation		China	United Nations Economic Commission for Europe
the United States		Italy	United Nations Development Program
		Japan	United Nations Environment Program
		Republic of Korea	
		Singapore	
		India	

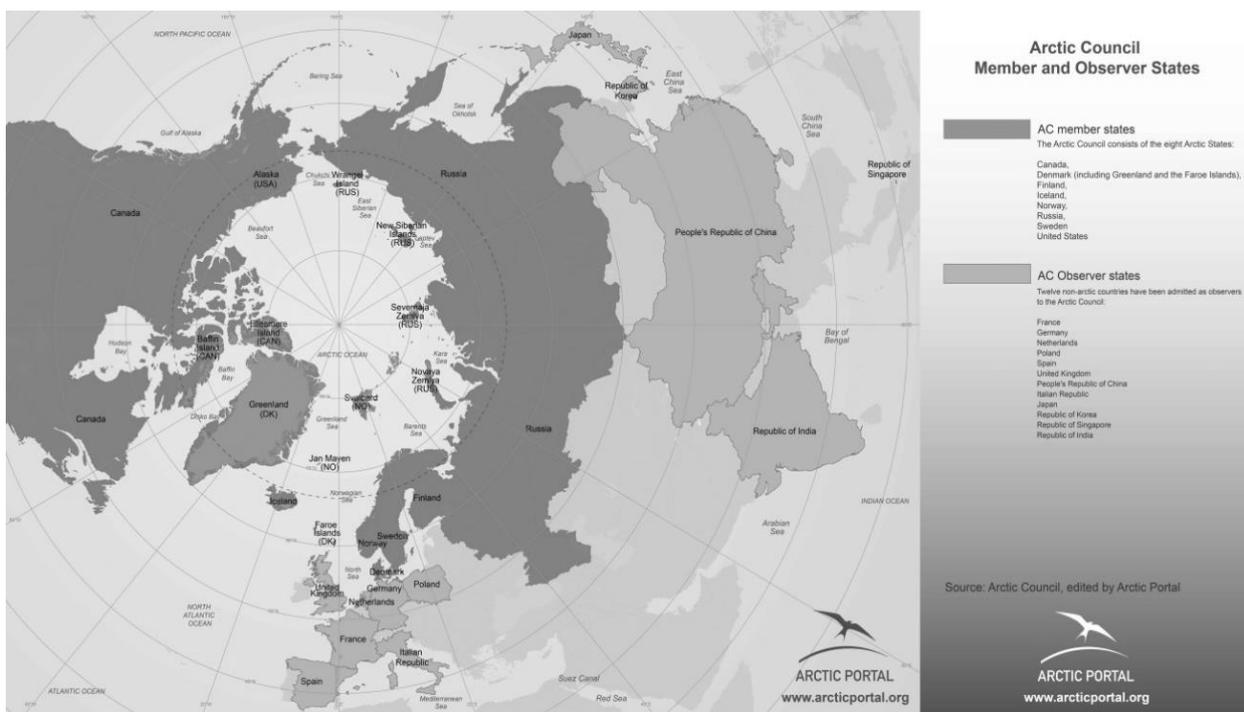


Figure 7 Arctic Council member and observer states (Arctic Portal 2015)

The Arctic Council is an established international organization. This means that it has a three-tier structure of supreme authority. In other words the Council has an executive body, the biannual ministerial meeting, and a day-to-day administrative body; the standing secretariat. The Council has more authoritative ability on research and assessment than decision-making power. (Baozhi 2013; Heikkilä & Laukkanen 2013, 64.)

The overall main focus points the Arctic Council has are environmental protection and climate change (Baozhi 2013). The alignments that each Chairman of the Council has, builds the framework in which companies and other Arctic States operate in for two years at a time. The general framework in which all of the Arctic nations need to operate and develop is quite static; preventing climate change and adjusting to the restrictions that the environment brings. The emphasis points differ from Chairman to another. Economic development has to happen within this set framework. (Valtioneuvoston kanslia 2015, 13.)

The Chairmanship of the Council rotates between the member states every two years. Each state has their own agenda for the Chairmanship period which they try to push forward during their rein. Canada had the Chairmanship up till April 2015 when it was passed on to the United States. This is followed by Finland in 2017. Canada's theme and focus was the four million people living in the Arctic as well as the sustainability issues in the area. (Canadian Chairmanship Program 2013–2015.)

As Canada was focused more on community development during its Chairmanship, the United States has the following theme: “*One Arctic: Shared Opportunities, Challenges, and Responsibilities*” (US Chairmanship 2015). In other words they have shifted the focus from people to the environment and have the intention to do more work on protecting the marine environment, conserving Arctic biodiversity, and addressing the rapidly changing climate in the Arctic. (US Chairmanship 2015.) As the United States assumed the Chairmanship, it announced its readiness to cooperate with all of the members of the Council, including Russia, who is also still open for cooperation. The only concern that the countries have is that the current external issues of Arctic may come to the discussions when talking about the Arctic matters which should be avoided if at all possible. Thus far the matters of Arctic has been tried to keep separate from all the other issues that do not consider the region. (Collins et al. 2015a.)

The Arctic Council is seen as the top political player in the Arctic because it involves all of the Arctic States and it is a place where many decisions about the area are discussed. It is a forum in which the work is primarily carried out in working groups. In addition, task forces can be created if needed. The work excludes all military security. The projects are sponsored by one or more of the member states. (Arctic Council 2015.) The Council creates assessment reports based on scientific research which is the basis for the Arctic States to make their own decisions. As such the decisions made by the Council are not binding. The main reason for the lack of binding power is the refusal of

the United States to consider it such a forum that would have that power. (Lasserre 2010, 5, 11; Baozhi 2013.) If the United States would accept the Council as a forum with decisive power, the clearing many of the issues floating around would become easier to solve.

As Arctic is becoming more viable and attractive business environment, more states outside the Arctic have started to apply for observer status. This shift began around 2010 when the Asian countries, China, Japan and the Republic of Korea, left their applications. In 2013, they received observer statuses which marked a new phase in the Council as the Asian countries became a more visible part of the cooperation in the area. (Bennett 2014, 72.) There is a clear interest to get to the Arctic Council even if it is only as an observer because then those interested know what is discussed about the area and what initiatives are taken.

Other actors have applied as well, such as the European Union, Mongolia, Switzerland and the World Meteorological Organization (Knecht 2015). Whether they will receive an observer status or not is still a question. The European Union has been an applicant for a while but has not received an observer status as some of its laws clash with some laws of the member states'. However, the European Union has an initiative, called the Northern Dimension, which aims to deepen the cross-border cooperation in northern Europe between the European Union and its neighboring countries. (Lindström 2003, 70.)

The Arctic States have had their differences in accepting observers to the Council because they have some opposing views on global management of the Arctic. Especially the states that have disputes on the area are inclined to accept the suggestions from non-Arctic states, such as China who's opinion is that according to the international law, the international seafloor belongs to everybody and therefore all humans, or states, should have the right to claim it. (Baozhi 2013.) The observer countries do not have a say on decisions made but they can participate in meetings, propose new initiatives and partly fund them as well (Knecht 2015).

The current relations between Russia and the Western countries have been tense ever since the Ukrainian crisis. Although there is not too much damage yet seen in the Arctic matters the recent global events have taken their toll on the development in Arctic as well. The cooperation in the Arctic Council is in standstill because of the cooled relations between Russia and the other Arctic States. (Pohjolainen 2014.) The challenge remains for the Chairman of the Council to maintain the cooperative structure and open dialogue in order to keep the high north as collaborative as possible. (Collins et al. 2015a.)

If the Arctic States are able to keep the political issues outside of the Arctic, they have the possibility to create a unique area in the world where cooperation is possible even though individual countries may have issues with each other. This would be espe-

cially important for Russia and the United States. It would be a challenge particularly now when the tensions between Russia and Western nations have risen again but if the cooperation could remain intact in the Arctic it would be worth it in the long run. (Trenin 2014, 4; Collins et al. 2015b.)

All in all the work the Arctic Council does is valuable and important for the development of the Arctic. An example of this work is the scenarios that one of the Council's working groups have developed to understand the possible development paths for the future. It uses the scenario planning as a tool to create these scenarios.

4.4 Scenarios of the future of the Arctic demand

One of Arctic Council's working groups, Protection of the Arctic Marine Environment (PAME), developed together with Global Business Network (GBN) in 2008 a scenario narratives report for the future of Arctic Marine Navigation in 2050 to systematically look at the long-term impacts on marine navigation and to figure out the different and possible ways how the demand in the Arctic could develop in the next 35 years. (Global Business Network 2008, 2.)

There are four scenarios that PAME and GBM thought of, each picturing a different future scenario, all of which have approximately the same chances of becoming reality. As seen from the figure 8 the scenarios are organized in two axels; resources and trade, and governance. The scenarios are named Arctic Race, Arctic Saga, Polar Lows and Polar Preserve.

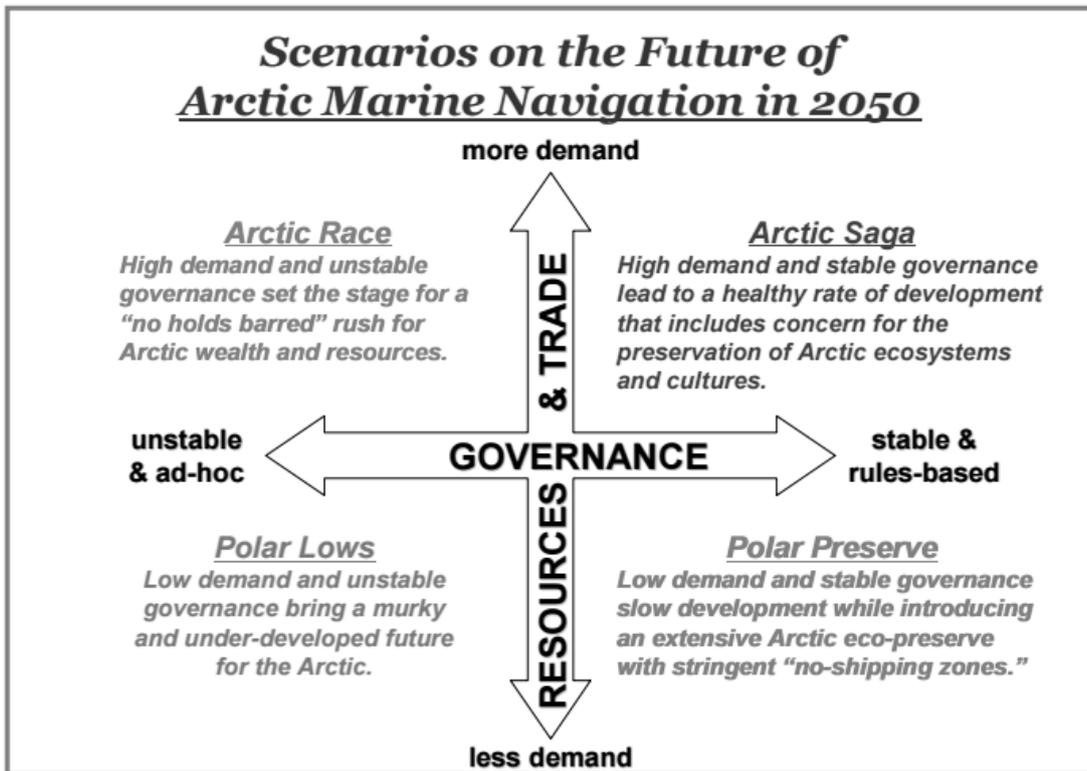


Figure 8 Scenarios for the future of Arctic (Global Business Network 2008, 5)

The two top ones in figure 8, Arctic Race and Arctic Saga, are more interesting in economic sense than the lower ones, Polar Lows and Polar Preserve. In both, Arctic Race and Arctic Saga, the demand is expected to grow in the future. The difference is in the development of the governance in the area. Arctic Saga has the most positive outlook on future. (Global Business Network 2008, 6.)

Arctic Saga assumes that the demand of resources will rise which in turn speeds up the process of building new harbors and ice-class fleets as well as acquiring ice-experienced crews and making new icebreaking technology. The development also requires stable governance in the area so a team of agencies is said to be set to oversee the Northwest Passage, the Northern Sea Route and the points in between. (Global Business Network 2008, 16–18.) However, these agencies are not yet formed but there has been development such as the Polar Code which aims for more stable governance (Valtioneuvoston kanslia 2015, 32; IMO 2015). This is very optimistic view of the future which emphasizes the cooperation between the Arctic states.

On the other side is Arctic Race which also forecasts surge in the demand but does not believe that stable governance can be reached. On the contrary, the scenario talks about each state driving their own interests which causes more and more friction over time. This leads to the point where the area is on the edge of war many times, each time narrowly avoided. (Global Business Network 2008, 7–9.) This seems to be very close at

the situation at the moment as Russia and the other Arctic States, especially the United States seem to have quite fragile relations.

The two last scenarios, Polar Lows and Polar Preserve, are not as interesting from the business perspective as they both forecast low demand of the Arctic resources. Furthermore vast amount of research suggest that the demand in the Arctic will grow in the future (see Smith 2011b, 78; Hong 2012; Heikkilä & Laukkanen 2013; Paananen 2013; Valtioneuvosto 2013; Valtioneuvoston kanslia 2015). Polar Lows assumes that the hype around Arctic will not last long as there are too many obstacles and not enough economic activity to work with. This added to the realization that the ice does not melt as fast as predicted and the states cannot settle their disputes, the area remains as it is or with even less economic activity than today. This scenario might become into question if the Arctic States would decide that peace between the states would be more important than the assumed economic benefits. However, if the economic development possibilities would outweigh the possible friction and obstacles then it would not be likely for this scenario to become reality.

The last scenario, Polar Preserve, the economic activity is cooled down due to the concern of climate change, the fragile ecosystem and the unpreparedness of nations in case of accidents happening in Arctic. The area becomes a place mainly for scientific research and preservation done by enforcement arm. In other words, all economic development is put in ice for about 35 years and then beginning again with more responsibility. (Global Business Network 2008, 10–15.)

All of these four scenarios represent a different kind of future for the Arctic environment and the economic prospects. Each has a chance of becoming reality by 2050 but the most likely future or outcome is somewhere in between. For this study, the two scenarios emphasizing the growth in demand are more interesting, namely Arctic Saga and Race, and there is a lot of evidence on the growth potential. These are the two taken more into account when analyzing the future development. There are also concerns for the environment. The cost of extracting the resources with existing technology is high and time consuming which can hinder the economic development as well as the political tension between Russia and the western countries at the moment.

It is difficult to say how the future will turn out and which of these scenarios will be the most accurate, but these give ideas and viewpoints to companies to plan and strategize their actions for the long run. Knowing about the scenarios can help companies to adapt to new situations when those arise, based on frameworks or plans made using scenarios as tools. The scenarios are useful for companies in Arctic because in order to be successful in the long run, it has to be understood, how the competition in the future will differ from the competition from today. The main goal is to maximize the ratio of learning over investment and this is where the scenarios come handy. (Hamel & Prahalad 1994, 30, 124.)

Uncertainties make the Arctic more unpredictable which is why the scenarios were created to help understanding of the possible development paths of Arctic. There are multiple uncertainties concerning the region and its development, for example the rate in which the arctic sea routes are taken into commercial use is unknown, as well as the rate in which the planned energy initiatives will become reality. Furthermore the progress and magnitude of the climate change and its full effects on arctic conditions are uncertain. (Valtioneuvoston kanslia 2015, 9.) The importance of close cooperation is also highlighted when other factors bring uncertainty to business. Future development is a sum of many different factors and as there is the will to develop the area the natural conclusion would be to create clear institutions and governance to facilitate this development. If the Arctic Council would be to have decisive power the political environment would have more clarity. For this to happen, the United States would first need to ratify the UNCLOS.

The political environment is only one part of the development in the Arctic. The interest of this paper focuses on the economic development which leads to the opportunities and threats present in the region. These are gone through next.

5 BUSINESS OPPORTUNITIES AND THREATS IN THE ARCTIC

5.1 Arctic as a business environment

The northern areas, including the Arctic, are areas of new business opportunities, wide international cooperation, and united responsibility (Stubb et al. 2015). The growing globalization; removal of barriers of entry, and the interconnectedness of industries have brought many new challenges to companies that they did not have to consider earlier. The opportunities are becoming evident and bountiful but the ways how to seize them are uncertain for many reasons, such as the political environment, the climate change, the overall global economy at the moment and the will and strategy of the companies in the area.

The fact that Arctic will be an increasingly important area for business in the coming years and decades, is well recognized but at the same time the politics influence the area and drive the development into different paths. The focus in the Arctic matters stayed on the environmental issues and scientific research until the late 1990s when the economic interest and potential began to grow (Heikkilä & Laukkanen 2013, 62). In 2004 the Arctic Climate Impact Assessment came out, which changed the way the public saw the Arctic. Before it was merely seen as a frozen desert and after the assessment the economic potential was understood. With the assessment the Arctic states also realized that there could be a need for stricter and clearer governance measures in the area. (Baozhi 2013.) One reason for this being that the general and local politics are often not in line with each other which mean that the different actors have conflicting agendas for the Arctic.

The reason the assessment caused this reaction was its findings; the climate change was expected to be the fastest and most significant in the northern latitudes, 45°N or higher, which will influence the economic development of the area. The scenarios of the warming of temperatures in northern high latitudes ranged from 1, 5 degrees centigrade to eight degrees centigrade or more by 2050. This transformation will increase the human activity and give arctic higher strategic value which creates greater economic importance of the area globally. (Smith 2011a, 6; 2011b, 129.)

The environment imposes challenges that are unlike in other parts of the world. The water freezes over during most winters which signifies less ice-free ports and less secure passages for vessels and other vehicles. All the equipment used in the Arctic needs to be tailored to endure and cope with the different circumstances. (Tuomioja & Stubb 2012, 1.) In other words specialized technology is needed in the area and there are only

a number of countries and companies that can deliver the needed type of technology for the others in the area.

Furthermore according to the United States' Geological Survey (2008/2009) about 13 percent of the world's undiscovered oil and 30 percent of its undiscovered natural gas lies in the Arctic which, as an area, only counts for about four percent of the globe (Smith 2011a, 147). This added to the fact that the demand for natural gas is projected to double between now and 2050 it is only natural that the oil companies are interested in the potential new oil fields (Smith 2011b, 78). Moreover technology has developed so that it is becoming cheaper and more efficient to drill in the Arctic than before.

Resource-extraction industries are quite common in the Arctic and these often attract attention from environmentalist groups. Furthermore many operations are funded by government money and there is not enough workforce nor enough skilled and educated people that are needed to work in the Arctic conditions and with the specialized equipment. The natural resources and existing infrastructure do not create business by themselves. There are multiple other resources needed in order to make business operations truly work and profitable.

Natural gas and oil are not the only industries in the north. Some of the others include mining, logistics, tourism, infrastructure building and shipbuilding. Especially those who supply vessels and technology to the Arctic are in high demand since it requires special set of skills and technology to understand the conditions and the requirements of the equipment. All of the aforementioned industries are gaining more footholds in the north but the marine traffic and logistics seem to be leading the development as multiple countries inside and outside of the Arctic are interested in the possibilities the new shipping routes might bring. (see Hong 2012; Heikkilä & Laukkanen 2013; Valtioneuvosto 2013; Valtioneuvoston kanslia 2015.)

The reason why shipping is in such crucial role in Arctic economic development is not just because it makes the Arctic Ocean more accessible, but also because commercial shipping is vital for international trade as over 90 percent of the world's international trade is done by commercial shipping which is the cheapest form of transportation. (Smith 2011, 163; Hong 2012, 51.) Therefore it is not a surprise that it has been said that "*whoever has control over the Arctic route will control the new passage of world economics and international strategies*" (Li 2010). The Arctic is also the shortest way from Asia to Europe and vice versa (Bennett 2014, 75–77).

There are said to be five main types of shipping that will benefit from using arctic waters; international shipping, shipping associated with northern resource development, fishing vessels, cruise vessels, and surface naval vessels. International shipping would be using the Northern Sea Route (NSR), Transpolar Route, or the Northwest Passage (NW Passage) (figure 9).

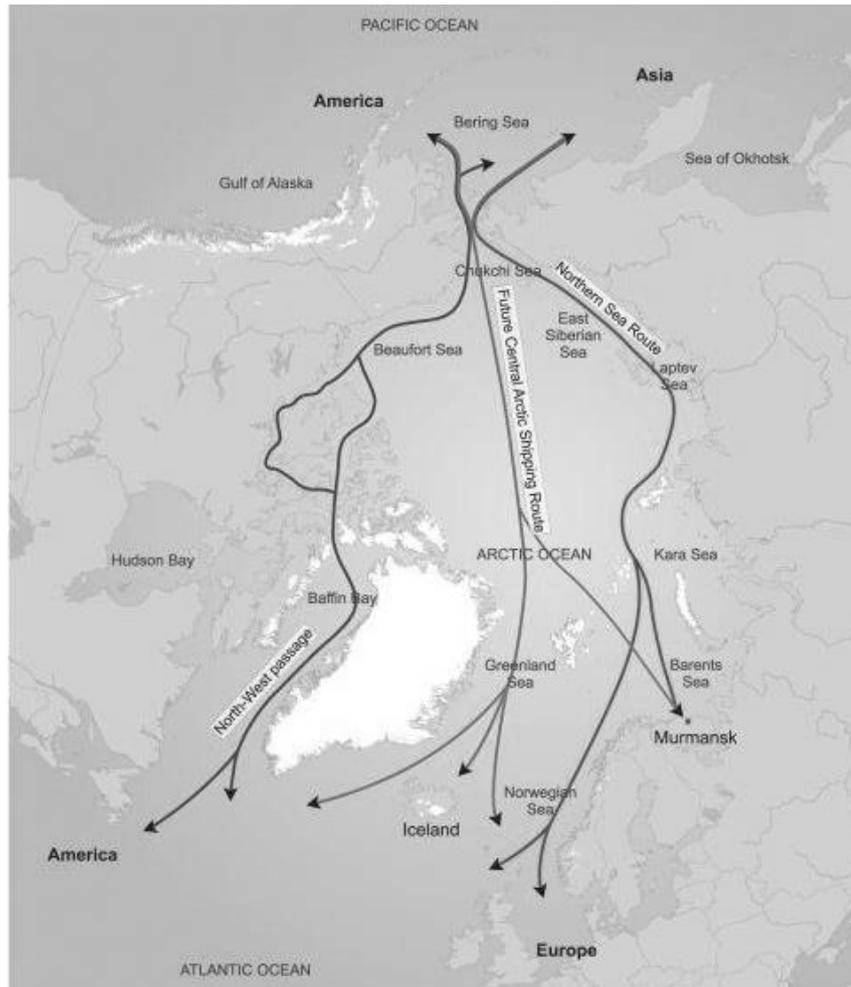


Figure 9 The Arctic passages (NATO 2010)

The NSR mainly goes through the coastline of Russia and is likely to open up sooner than the Northwest Passage, which is mostly in Canadian territory. The Transpolar route's development is in the more distant future. This route would go through the North Pole which would mean that the route does not go across any national territory as North Pole and path of the route would be in international waters.

Neither NSR nor the Northwest Passage is yet a direct competition for the traditional route through Suez Canal. In 2011, 17 799 vessels went through the Suez Canal while in 2012 there were only 46 vessels going through the NSR. (Heikkilä & Laukkanen 2013, 49.) As the two sea routes are slowly opening up, the two nations through whose waters the passages go through, Russia and Canada, will have some issues with the commercialization of the passages. Most likely at some point there will be a legal process where the passage ownerships, governance, and other rules are agreed. Especially the far north of Russia is not equipped to handle operating the NSR. (Trenin 2014, 3.) Some rules are already in motion as the Polar Code was accepted and implemented by IMO in November 2014. At the same time the Convention for the Safety of Life at Sea (SOLAS) took

effect and all of these regulations are peremptory provisions. (Valtionneuvoston kanslia 2015, 32; IMO 2015.)

However these routes would cut the transit time significantly and cut the costs by billions of euros a year while allowing the vessels to avoid the waters in Middle East and the coast of Africa which can be politically more unstable and are associated with maritime piracy. (Hong 2012, 50–51.) The difference between the traditional routes and the arctic ones is quite clear in the figure 10.

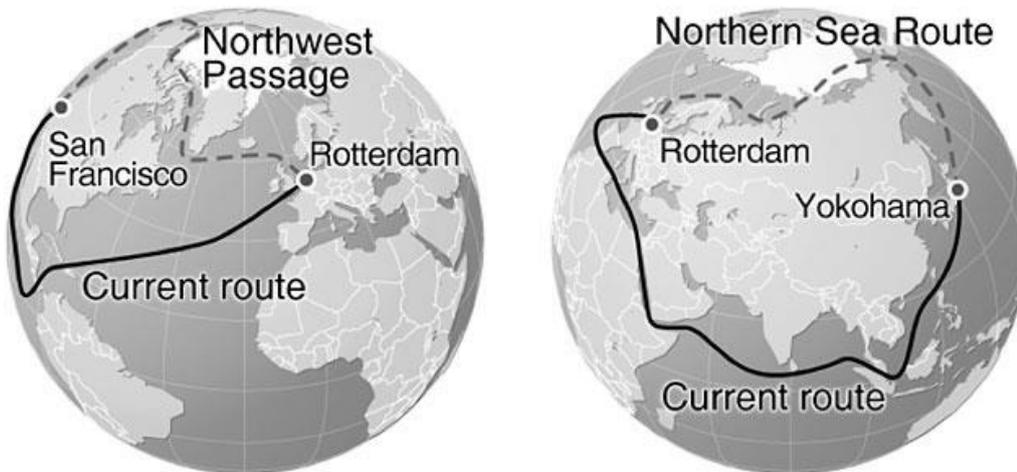


Figure 10 The Arctic Sea Routes compared to the current routes (Discovering the Arctic 2015)

The switch from using the Suez Canal to using the Arctic routes would mean that the EU and North America are approximately 7 400 kilometers closer to the markets of China and other Asian countries. (Hong 2012, 52; Bennett 2014, 75–77.) Furthermore once the routes become more accessible and used, the demand for well-equipped vessels and other equipment will increase which could mean more business for the fast developing dockyards and maritime business.

Shipping associated with northern resource development is more politically charged and at the moment not that profitable due to the lack of specialized equipment and well-educated workforce. Furthermore the price of the resources is so low that investing in oil and gas fields is not beneficial. However, the demand of the resources is expected to grow and as the technology will develop to meet the needs of the environment, this shipping form is likely to increase as well in the next few decades. (Hong 2012, 50–51.)

The increased interest in Arctic as a business area is also seen in the increased activity in the area, in a form of increasing investments and projects (Ulkoasiainministeriö 2012, 8); Russia promising to open ten new airports in the Arctic area during 2015 (Kallio 2015), and China planning to build a shipping hub to Iceland (Hong 2012, 53). The openness created by the Arctic States is central to the performance and the future devel-

opment of Arctic geopolitics as well as its business performance and development (Dittmer et al. 2011, 205).

The Arctic holds a bigger economy and population than people might realize but it is still relatively small and sparsely populated. The Arctic States are among the most stable, rapidly globalizing and trade liberal nations in the world, however, their development will not be uniform as they have different strategies and are different entities. The past and current political decisions will carry legacy for a long time and will affect the development as well as the current attitudes towards economic development and trade in the region. Still, the demographic development seems to have the same direction; all Arctic countries will have bigger population by 2050, with the exception of Russia. (Smith 2011a, 172, 257; 2011b, 172, 194, 257.)

As the business environment in the Arctic is evolving, there are new actors interested in benefiting from the development. Naturally all the Arctic States play a crucial role in the economic development but there are also non-Arctic states that are keen to be involved in the development paths from early on as has been discovered earlier. China is one of these states interested and its approach is studied next in order to understand what lucrative opportunities non-Arctic states see in the region.

5.2 China in the Arctic

China is certainly not the only Asian country that is interested in Arctic affairs (Lasserre 2010, 10). Other countries such as Japan, Republic of Korea, and Mongolia are also intrigued. The two first ones have an observer status in the Arctic Council while Mongolia has recently applied for it. China was accepted as an observer to the Arctic Council in 2013. (Knecht 2015.)

As a nation, China has three long-term strategic challenges; first a need to gather natural wealth to accommodate the increasing national resource demands, secondly the expanding economy craves finding new markets and expanding the existing ones, and lastly a need to find allies from the developing nations to counter-balance those of developed nations (Brautigam 2009). One direction for overcoming these challenges has been to be more engaged in the Arctic matters.

Although China does not have a public Arctic strategy it has increased systematically its activities in the area since the beginning of the 21st century. In official statements China is merely interested in the research exhibitions but their actions in many areas indicate a different kind of story. According to Lasserre (2010, 5) China has two strong intentions when it comes to Arctic; first of all, it is concerned about the global impacts of climate change and secondly, it wants to have more say in international institutions. Therefore the Arctic Council as a forum suits China's intentions as it has no decisive

power. Furthermore any country that does not have a comprehensive understanding of Polar politics is more likely to be excluded from having decisive power in it in the future. This would also force those countries to have more passive roles which are certainly not in China's interest. (Guo & Xie 2007; Bennett 2014, 72.)

As China does not have claims to Arctic, it has persistently tried to emphasize the right of open access to Arctic. The areas that do not belong to any nation, the international law states that those should belong to all humans. Therefore China, among others, would have the right to access those areas as well as to the resources found from them. So far China's policies seem to have followed a low-profile approach and the increasing interest is disguised as scientific in nature. However, the bilateral discussions with Arctic States have had different contents such as trade, culture, investment, tourism, and technology (Mroczkowski 2012). China is waiting especially for Canada and Russia to show interest in cooperation. (China and the Arctic 2012, 3.)

The arctic research was China's initial input in the region. Since 1990s the country has made significant investments in polar research but only recently its interest has deepened and become more extensive. (China and the Arctic 2012, 4, 8; Mroczkowski 2012.) The extensive research that it has conducted provides a solid basis for the commercial shipping development in the Arctic and one of the largest non-nuclear icebreakers used in Polar research actually belongs to China (Hong 2012, 53).

The sciences-oriented China is only a part of the story as it is not in China's interest to remain neutral since Arctic is only a part of China's agenda of transforming itself from a regional power to a global one and at the moment it is trying to do it by linking the scientific presence and its development to the economic objectives. (Jakobson 2010b; Lasserre 2010, 5; Mroczkowski 2012.)

The recent development of China's involvement in the Arctic began about a decade ago. In 2006 the Chinese government was very keen on both national and international business expansion which is why they tried to accommodate it and map out the possibilities (Lasserre & Schütte 2006, 164.) The next year the Chinese government launched a research project to understand the political, legal and military dimensions of the Arctic. The Arctic Issues Research included ten research topics which were the Arctic and human society, resources and their exploitation, scientific research, transportation, Arctic law, Arctic politics and diplomacy, military factors, China's Arctic activities, the Arctic's strategic position, and China's Arctic policy and recommendations. The reports and findings of the research were not made public after completion in 2009. (Wang et al. 2008; Jakobson 2010a, 5.) It did, however, indicate increase of interest in other Arctic matters beside the environment.

In 2008 things moved further when China began a strategic partnership with Denmark which included cooperation in technology, science, and trade. By agreeing to this partnership Denmark chose to ignore some issues, such as human rights issues in China.

The cooperation did not include only Danish soil but Greenland as well. (Mroczkowski 2012.) Greenland, which has autonomy from Denmark, has sparked the interest of energy and mining companies internationally. China was very interested in these opportunities whereas Greenland enjoys the possible investment since by developing the industries on the island, it might be able to fully separate itself from Denmark. (Heikkilä & Laukkanen 2013, 15.) Denmark, however, is not keen on this possible development path as Greenland is Denmark's gate to the Arctic. Without the island, Denmark could be cut out from the Arctic States.

In 2009 the Chinese assistant minister of foreign affairs, Hu Zhengyue, announced that China does not have strategy for Arctic but based on all the actions the country makes concerning the area it did seem to have a clear agenda. (Ning 2009, 58; Jakobson 2010a, 9). China's approach to the developments in the Arctic has been more of a wait-and-see since it did not want to intrude and therefore alarm other nations of its objectives as that might mean being excluded from access to the Arctic and its development. As a rising global power China likes to be cagey and become bigger and stronger all at the same time. (Guo 2009; Jakobson 2010a, 12.) For example state-owned and other Chinese companies increased their presence and foothold in the Arctic by making investments to industries in the region.

The additions of agreements with Arctic States began to increase as well. Between 2009 and 2010 both Canada and Norway had bilateral dialogues with China. To be able to exploit the vast resources in the Arctic, China has the need to partner with foreign companies as they do not have the needed technology to do so. (Li 2006; Jakobson 2010a, 8, 11.) The bilateral discussion between China and Canada was especially fruitful and mutually beneficial; Canada would benefit from China when considering the Northwest Passage. The USA refuses to recognize Canada's claim of sovereignty of the waters of the passage but as China and others are keen on implementing tight shipping rules in the Arctic the governance should become clearer and give Canada the rights it desires. Furthermore Canada felt that accepting China as an observer in the Arctic Council would benefit its objectives the most. (Lasserre 2010, 9, 11.)

Canada would be a great partner for China whose energy consumption is constantly growing. The same goes with Norway and its energy resources as Chinese companies are likely to invest in Norwegian energy companies as well. (China and the Arctic 2012, 5.) By 2010 China began to map out the possible allies and threats for their intentions. Military-wise China is the most wary of Russia and its intentions in Arctic. The Arctic nations are not, however, the only allies China is looking for; other Asian states such as Japan, North Korea, and South Korea would benefit from the shorter shipping and fishing routes just as much as China would. Should they have or develop a mutual Arctic strategy, it would benefit them all and create win-win situations for all parties. (Jakobson 2010a, 12–13.)

The growth of China's economy needed to become more sustainable and not only foreign investment based. The Chinese government identified innovation as the main growth engine in 2010 and the aim is to build an innovation-driven economy by 2020. Its Arctic ambitions should match these objectives as well. (Lasserre 2010, 4.) Furthermore, strengthened polar and oceanic research as well as active integrated marine management are mentioned in the Five-Year Plan 2011–2015 (China and the Arctic 2012, 4).

The Arctic States have noticed China's growing interest of the Arctic and began questioning the motives and objectives. (Hong 2012, 53–54.) Japanese newspapers began to question China's only scientific approach and interest in the Arctic as well and many were sure that there were economic intentions involved, especially considering the natural resources and the governance of the Asia-Europe route. To prove these claims there were evidence of investments in the Arctic countries and negotiations with the Arctic States. However, the Chinese counterparts denied these accusations by saying that the investments to European nations were normal actions. (Beijing Times 2012.)

In 2012 the extensive energy ties between China and Russia made way for further cooperation and investments considering the Arctic (China and the Arctic 2012, 5) which could prove to be a bigger development path in the near future. As the relations between Russia and the western nations have cooled down, Russia has turned some of its interest towards Asia and especially China.

As an observer in the Arctic Council, China's approach has been quite subtle and they have tried to highlight their role as more of a public goods provider to the non-Arctic states and actors to promote cooperation with them. Specifically Arctic local enterprises and governments could be very interested in what China and Chinese companies have to offer which in many cases means financial investments in initial state of the cooperation. (Baozhi 2013.) The figure 11 below summarizes the main events of China's involvement in the Arctic during 2007–2013.



Figure 11 Timeline of China's involvement in the Arctic

As discussed previously, China sees the melting Arctic Ocean as an exceptional opportunity for trade internationally since over 90% of the world's trade is still carried by commercial shipping (Ning 2009, 58; Jakobson 2010a, 1; Hong 2012, 50–52). Taking into account that China was the largest exporter of globally shipped goods and second-largest importer in 2009 (China and the Arctic 2012, 6), it is not a big surprise that 46% of China's GDP is shipping dependent and the whole country is reliant on foreign trade (Hong 2012, 52). As the climate change makes the northern passages more available the benefits of using and developing these routes becomes more and more lucrative.

In 2012, seven of the world's top20 container terminals were Chinese. (Hong 2012, 51.) All of these add up to the fact that any events or possible changes in the shipping industry affect the Chinese economy and therefore they are following these events closely (Hong 2012, 50). Table 5 shows a SWOT analysis of China's use of Arctic sea routes. However it can be understood in the wider context as well; what China sees in the Arctic.

Table 5 SWOT of China's usage of Arctic sea routes (Li 2009)

Strengths	Weaknesses
<ul style="list-style-type: none"> • Major export country • Elevation of the global status • Enhancement of the exploration and research capacity • Strengthening of the shipping companies 	<ul style="list-style-type: none"> • Does not have the “absolute right” to speak in global affairs • Cultural elements • Not an Arctic Ocean coastal state • Vessel-building technology and logistic planning not the most advanced
Opportunities	Threats
<ul style="list-style-type: none"> • Logistics costs of shipping companies reduced • Asia's high latitude ports new centers for international shipping • Arctic shipping has high tourist value • Global trade and shipping patterns will change in favor of China 	<ul style="list-style-type: none"> • Current international laws • Scrambles among Arctic Ocean coastal states (e.g. Canada, Russia, the USA) • Fierce competition expected • Negative effects on ports in lower latitudes

The table 5 is a summary of China's expectations in the Arctic. When analyzing China's strategy in the Arctic it became evident that it has a pattern which they have used before. A quick cross-reference to the strategy China used in Africa shows many similarities. This is briefly discussed next because in order to understand China's actions in the Arctic in the future, it helps to have some reference point which can be used as an indicator and help to forecast the future development as well.

China's strategy in Africa had three cornerstones; low-key diplomacy, soft-power strategy, and complementarity in business conduct. The strategy was based on differen-

tiation strategy and noninterference. Soft power is by definition, the opposite of hard-power tactics such as economic and military interventions. The complementarity, on the other hand, refers to interdependency in business relations and to reciprocity. (Kurlantz-nick 2007; Yin & Vaschetto 2011, 47, 49, 53.) The approach was to win the trust of the local nations by using soft power which cultivated profitable relationships. The initial aid and investments were made to build sustainable economic growth in some African nations. This was well needed and China's well-coordinated trade was able to provide it. The result of the initial investments were seen in the sharp increase of trade between Africa and China; in 1997 it was eight billion US dollars and a little over a decade later, in 2008, it was 107 billion US dollars. (Yin & Vaschetto 2011, 43, 53.)

One of the initial reasons China wanted to become important in Africa was its need of alternative oil supplies (Lasserre 2010, 7). Outcomes of the strategy used were multiple, for example; infrastructure projects and manufactured goods became available in all African markets, and many developing nations in Africa prefer to deal with China instead of Western states. There are two main reasons for this development; China was willing to establish mutually beneficial business relationships and they are committing to them in the long term without political preconditions. Furthermore the business relations they offered were based on investment and trade not aid which is the only thing what many Western countries are offering. (Yin & Vaschetto 2011, 43.)

If China follows the same strategy in the Arctic that it did in Africa it would mean two things; first of all great opportunities for companies and projects in need of financial support and secondly, a subtle increase of the influence China will have in the area. Due to their business culture, the Chinese are very patient and long-term oriented. This gives them the benefit of creating influence and power without interference and therefore it can become as a surprise for the companies who have received investments when after several years the Chinese are asking for something in return.

The characteristics of the Chinese business development patterns are based upon the entrepreneurial skills and the systematic use of market imperfections. Furthermore they hold personal relations, or *guanxi*, extremely important which is why the initial affluence is built by making and accumulating deals. The business managers utilize the opportunities they see and take advantage of scarcities in the overseas economies. The collectivity is a key thread in their mentality which makes their business strategies as they are. (Lasserre & Schütte 2006, 131; Morrison 2006, 116.)

As the political business environment in the Arctic has been described and the some of the general opportunities and threats in the Arctic have been analyzed, the next step is to analyze how Finnish companies can benefit from the development. In order to gain a comprehensive understanding of the opportunities, the companies apply their strategic management and make strategic plans that in the long run make companies successful. First the aim is to understand Finland's current Arctic knowhow.

6 FINNISH COMPANIES IN THE ARCTIC

6.1 Finland and the Arctic

Finns have not always had the same interest towards its northern regions as after the well-known speech by Gorbachev in 1987, Finland lost the main interest on the northern issues and turned its attention towards south and west; in other words towards the European Union. In 1995 Finland became a member of the EU and at this point the political leverage that the Arctic had during the Cold War was largely gone. Until recently the main relations Finland has had in the northern area, have been with Russia and in the Baltic area in general. (see Scrivener 1996; Heininen 1999; Myrjord 2003; Keskitalo 2007, 197.)

Nowadays Finland is an active player in the Arctic. In its Arctic strategy, Finland has defined that it aims to bring together the limitations of the Arctic environment and the business opportunities through international cooperation. After all, Arctic cooperation and agreements are the foundation for Finnish operations in the region. In 2013, Finland was a part of multiple organizations and governing bodies from which the following are the main forums:

- The Arctic Council – primary forum
- Barents Euro-Arctic Council (BEAC) and Barents Regional Council
- The European Union and its Northern Dimension initiative
- The Nordic Council of Ministers
- The cooperation between the Nordic countries
- The United Nations and its organs
- The International Maritime Organization (IMO)
- Other bilateral Arctic cooperation.

The Arctic matters are very important for Finland's foreign policy and building the country's image. The country holds the Arctic Council as the main and the most important forum for dealing and processing the Arctic issues. (Heinonen 2013; Valtioneuvosto 2013, 7–8, 14, 17.) The sphere of influence of these cooperation structures is seen in figure 12.

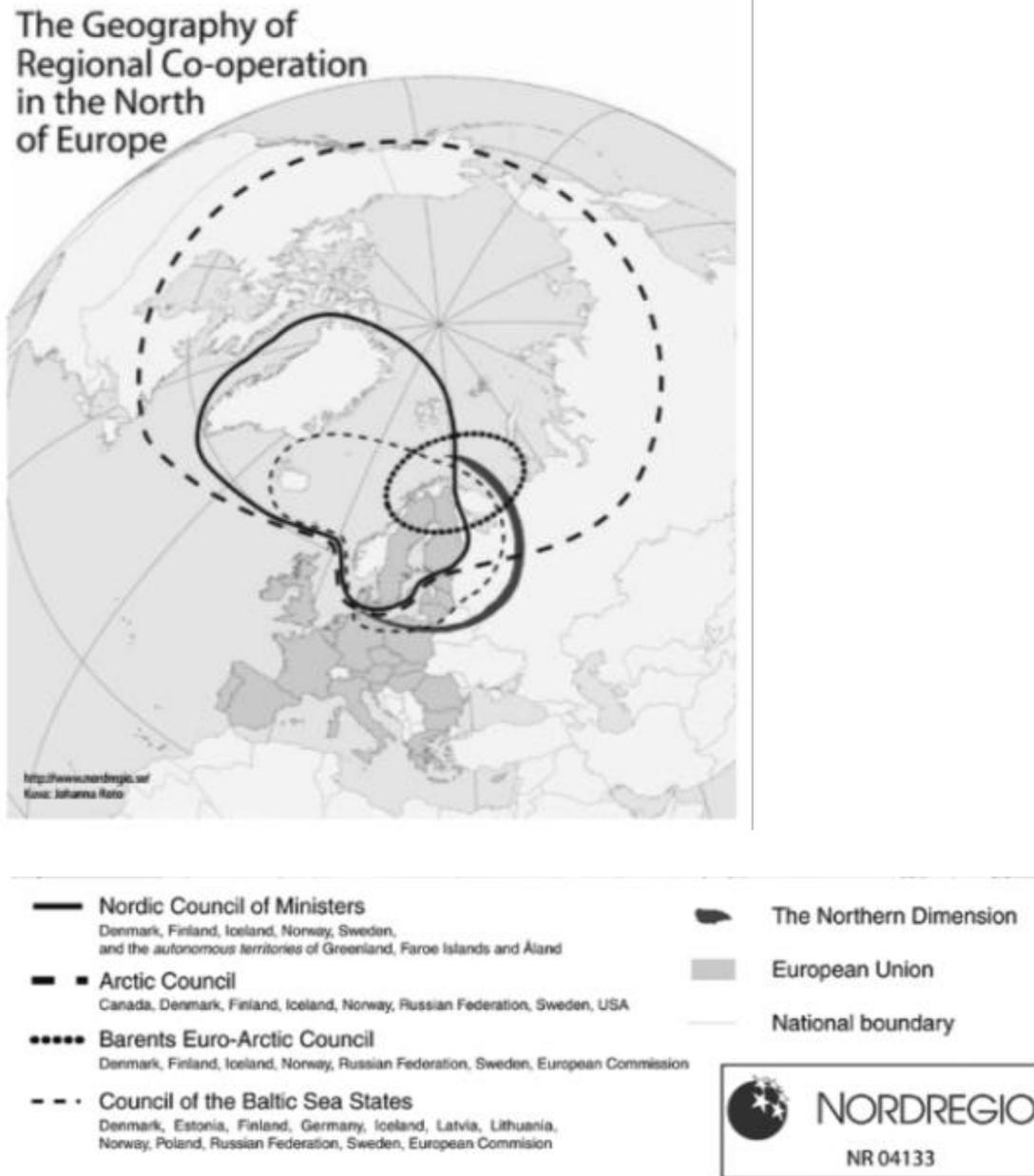


Figure 12 Geography of regional cooperation in Northern Europe (Valtionuuvoston kanslia 2015, 35)

As seen from figure 12, the multiple organizations and councils have different areas of influence and therefore their goals might differ from one another. The cooperation between the different organizations can be challenging especially if there are uncertainties or overlapping agendas between them. However, the basic elements in Arctic development are cooperation, mutual dependency, trust and openness. For the Finnish government the main route to secure partnerships is the Team Finland network. One of the challenges Team Finland faces is the coordination of the multiple Finnish actors in the market.

Finland is one of the leading countries in the world with regard to Arctic knowhow. This has historical and geographical origins; it was necessary to create knowhow of the environment in which Finns are living in. Since the 19th century Finns have had to come up with solutions to secure all year round sea transportation in order to continue foreign trade since Finland is one of the few countries that do not have any ice-free ports during most winters. (Tuomioja & Stubb 2012, 1; Liuhto 2013.)

Throughout the decades Finns have developed their knowhow to cope with the weather conditions in all transportation ways. (Tuomioja & Stubb 2012, 1.) However, the Finnish Arctic knowhow is more than just knowing how to survive during the winter months, how to deal with the ice and snow, and how to stay competitive during the cold times. There are various industries that are considered to be a part of the Finnish Arctic knowhow according to the Ministry for Foreign Affairs of Finland (2012). These industries or fields of knowhow are listed in table 6 below.

Table 6 Areas of Finnish Arctic knowhow (Valtioneuvosto 2013, 25)

- Offshore industry	- Building and infrastructure
- Maritime industry	- Environmental technology
- Shipping operations	- Environmental impact control
- Marine transportation	- Sustainable social solutions
- Weather and ice services	- Northern environmental knowhow
- Forestry	- Northern health and well-being
- Mining industry	- Waste disposal technology
- Metal industry	- Information technology
- Tourism	- Public electronic services
- Traditional livelihood	- Innovation-driven development
- Cold knowledge	- Cold climate research
- Winter testing	- Bio- and nanotechnology
- Measuring technology	- Risk analysis
- Electricity and heat production and distribution	- Oil destruction measures technology
- Energy conservation and efficiency	- Material technology
- Wind power technology	- Water supply and sewerage

All of the Finnish arctic industries represent high knowledgeableability in their respective fields which ensure viable operations and create further business prospects for the future. The biggest and perhaps strongest industry is quite naturally in the marine industry. The dockyards in Finland have built more icebreakers and supplied more equipment for demanding conditions than any other dockyard in the world; in 2013 about 60 of the 100 icebreakers worldwide were built in Finland (Heikkilä & Laukkanen 2013, 51). In addition, it is said that the best knowhow of building icebreakers comes from Finland (Vauraste 2014). Therefore the marine industry is very diverse, specialized, and knowledgeable of the challenges that the vessels face in the arctic waters. On top of shipbuild-

ing, Finns also have many companies that are more focused on the technology, equipment and design of the ships. These are companies such as ABB, Aker Arctic Technology, Cargotec Oyj and Steerprop Oy. (Ulkoasiainministeriö 2012, 2–4; Valtioneuvosto 2013, 27.)

In 2002 the International Maritime Organization (IMO) approved instructions for the vessels operating in the Arctic seas. (Valtioneuvosto 2013, 24, 33; Laaksonen 2013.) The instructions were in voluntary basis until the end of 2014 when the International Code for Ships Operating in Polar Waters, or Polar Code, was accepted by IMO and will enter in force 1.1.2017. At the same time the Convention for the Safety of Life at Sea (SOLAS) took effect. The Polar Code effects, for example, the safety regulations used in the Arctic waters and therefore the marine transportation in the Arctic. (Valtioneuvoston kanslia 2015, 32; IMO 2015.) All in all, the knowhow in the maritime industry is outstanding in Finland and the country has great possibilities in becoming the world leader in Arctic maritime expertise. However the industry needs new innovations since losing the competitive advantage is easy if nothing is done to refine it. (Laaksonen 2013.)

Other industries that the Finns have much knowledge about are the mining industry, metal knowhow and environment technology which include wind energy. The opportunities in mining industry are promising; according to a report by the Finnish Ministry of Employment and Economy, companies were either preparing to open or expand over ten mining operations in 2012. The estimated investments to mining operations were 3–4 billion euros for this decade alone. Most of the sites are located in the Arctic Lapland. (Heikkilä & Laukkanen 2013, 51.)

Furthermore the industries of tourism and reindeer herding are doing well in the northern Finland. The tourism industry has grown in the north during the past decade and it is worth mentioning that Finland has the most hotel beds inside the Arctic Circle. Therefore there is a lot of potential in the tourism industry in the northern Finland as an exotic holiday destination. (Ulkoasiainministeriö 2012, 1, 5–11.)

There are also multiple challenges that the Finnish companies are facing in the north such as the lack of information, obstacles to get investments, infrastructure and logistical needs, insufficient regulatory frameworks, labor markets, languages, and alleviation of border transits (Halinen 2013). These challenges need to be taken into account by both the Finnish government and the Finnish companies when they are making their strategies and development plans for the future. Therefore these are discussed next as a part of what the future holds for the Finnish companies in the Arctic business environment.

6.2 Future of the Finnish companies in the Arctic

The knowledge Finnish companies have and the opportunities that the Arctic environment offers can be combined by identifying these strengths and opportunities. It is strategic work that companies must do in order to grow and stay profitable long-term. The previous chapters have offered a view of the political and overall business environments of the Arctic. In other words, they have introduced the framework in which Finnish companies operate in. Thus this chapter aims to bring the framework into practice and offer some possible future development paths that would benefit Finnish companies operating in the Arctic to further develop their businesses.

The context and framework, in which the business environment in the Arctic needs to be understood is that the leading strategy is not customer orientation; the external factors and environment dictate much of the development in the region. In addition to the restrictions dictated by the environment and the political environment many of the industries operating in the Arctic are restricted or government owned. This makes the development slower as there are permissions that need to be granted before anything new can be done. Of course when considering what the industries are in the region, for example oil and mining industries, the restrictive nature of the business is understandable or even desirable. (Bronebakk 2013; Halinen 2013.)

The environment plays a highlighted role in Arctic and that is not likely to change. Therefore those companies that wish to succeed in the business environment will have to be proactive in the field of corporate social response (CSR). By embracing the challenges from early on through investments and sustained engagement the CSR activities will form out to become a source of differentiation instead of being additional costs. (Peng 2006, 495.) CSR is good to be established early on to show the end customers and other industries that the environmental and social aspects of business are taken care of.

Besides the opportunities there are also many threats that companies need to discuss, for example the effectiveness of public administration, and government money. Agreements between public actors and companies can be challenging, bureaucratic and long-term. There are good and bad sides of the cooperation but companies need to be careful about these as the public entities can change the rules of the agreements mid-project or stretch the project further than anticipated. The public actors are willing to invest in Arctic projects as they see the potential of the area but the money brings restrictions as well. It is a strategic decision for a company to decide how many government related projects they want to participate in and what those projects will mean in practice. (Spiller 2009, 48–51; Halinen 2013.)

As previously mentioned, the industry leading the development of the Arctic is the marine industry which has already a strong foothold in Finland. The main exporting

countries for the Finnish marine expertise are Canada, Norway, Russia, the United States and China. All of these countries are in need of new equipment that is customized to the Arctic environment (Valtioneuvosto 2013, 27). Especially Canada holds lucrative opportunities as the Comprehensive Economic and Trade Agreement, or CETA, between the European Union and Canada brings new opportunities for the Finnish marine companies. Although the European Union is not a part of the Arctic Council, it affects the Arctic business through the three countries that are members in both the EU and the Arctic Council, namely Finland, Sweden and Denmark. (Koskinen 2014; Collins et al. 2015a.)

The main benefit for Finnish companies from CETA is the disappearance of most tariffs between Canada and Finland. This will benefit especially the shipyards as the icebreakers are already cheaper to be produced in Finland than in the competing country Canada. Once the tariffs are lower it will increase the competitiveness of the Finnish dockyards further. (Collins et al. 2015a.) Therefore Finnish companies could start considering further agreements with Canadian companies that would facilitate and make trade and cooperation more intensive.

Another industry that drives development in the Arctic is the mining industry. It however needs infrastructure development in order to develop further. At the moment mining is somewhat dependent on truck transportation which is not the most cost or time efficient mode of transportation. There are investments coming to the mining projects and these should be taken advantage of by the companies in the industry. However the social issues need to be taken into account as well as the native people and their heritage should be protected. Therefore Finland is advocating green mining from the start. (Heikkilä & Laukkanen 2013, 51; Valtioneuvoston kanslia 2015, 3.)

The third industry that is rising especially in the Finnish Arctic is tourism. Traditionally tourism has been concentrated more on the southern parts of all of the Arctic States leaving the arctic less attractive for tourists so far. An exception to this has been Iceland as it has been a popular tourism destination for years. Lately, tourism to the Finnish Lapland has been increasing and attracting tourists as well. This industry is expected to grow in the future as the north is seen a more exotic destination. The northern lights, midnight sun, Santa Claus, and the nature are some of the new selling points that tourists look for from their escape from the reality. (Hall & Saarinen 2010, 455-458.) Strategy-wise this means that Finnish companies should invest in marketing and selling the Arctic as an exotic tourism destination.

As neighboring countries, Finland, Sweden and Norway, have many similarities in their Arctic development strategies. The countries have traditionally worked closely together but there are advantages in deepening the cooperation further. Therefore it would be a natural continuation for these countries to take a leading role in developing environmentally sustainable and economically lucrative arctic area in cooperation. To-

gether they have more cities and universities in the Arctic than the other Arctic States. (Bronebakk 2013; Valtioneuvoston kanslia 2015, 3, 7–8.)

According to a publication by the Finnish Prime Minister's Office there are four potential growth drivers and tools with which these nations could develop sustainable economic growth in the Arctic. These drivers are liquefied natural gas (LNG) and renewable energy, green mining, development in tourism, and the knowhow of ice conditions and the arctic climate. For these drivers, the publication offers four tools; mutual regulatory system, mutual knowhow and labor force, long-distance transportation and infrastructure plan, and one voice in the international cooperation in the Arctic area. (Valtioneuvoston kanslia 2015, 3, 7–8.)

A mutual regulatory system could be the first step towards a strategic partnership. For Finnish companies a mutual regulatory system would make the bureaucracy and the cross-border projects easier and faster to execute. (Bronebakk 2013; Halinen 2013.) Furthermore Finland, Sweden and Norway are not strong enough influencers on their own in the different political structures in the Arctic and in Europe. With a mutual regulatory system they could find a common voice and become a stronger unit. After all the rules and regulations of the business and environmental protection of the Arctic are only taking shape so together the countries can affect these rules and their contents. The national borders have not limited the life of the northern people and their lives but they affect the business which complicates development. (Valtioneuvoston kanslia 2015, 11, 22.)

In addition to the mutual regulatory system, creating a mutual knowhow and labor force pool with the Nordic countries could be beneficial as there are both a shortage of work force and availability of high-quality experts in the northern areas of each of the three countries. This is due to the fact that traditionally the northern parts of the Nordic countries have not been as attractive working environments as the more vibrant southern cities. If there would be a mutual labor force pool between Finland, Sweden and Norway the labor shortages could be easier to be leveled and handled. Many of the suggestions made are projects mainly for the governments as it is their role to provide the political and legal frameworks for companies. However, each company is responsible of their own success and therefore it is their task to seize the opportunities offered by the frameworks given. (Bronebakk 2013; Halinen 2013; Valtioneuvoston kanslia 2015, 3, 7–8.)

The long-distance transportation and infrastructure plan was another tool to create sustainable economic growth in the Arctic. The reason for this is that one of the biggest stumbling stones for the economic development in the Arctic is the lack of efficient infrastructure (Halinen 2013). To achieve better infrastructure, one of the first steps could be to be included in the EU's Trans-European Transport Network (TEN-T) plans. (Valtioneuvoston kanslia 2015, 30.)

To be included in the TEN-T plans would enhance the arctic business for Finland and other Nordic countries. In practice the infrastructure plan would mainly mean a railroad, Polar Sea Railway, which could transport goods straight to the Arctic Ocean and thus be a direct link to the NSR. Gaining access to the new arctic passage would bring Finland closer to the center of global logistics and therefore be crucial for the future development. However, in order to have an access to the Arctic Ocean the railroad needs to go through national borders. (Paananen 2013.)

The connection would be hundreds of kilometers long and it would cost approximately 2, 5–3, 5 billion euros. The railroad would cut the transportation costs considerably and therefore make business more profitable in the north. For the infrastructure plans to become reality Finland should work together with Sweden to get the northern Europe to be included to the TEN-T plans. Finnish companies could promote this development by lobbying and by showing what are the benefits from the railroad to different stakeholders. The infrastructure plans are profitable as they promote economic growth as well as make further development easier and faster. The main challenge for infrastructure plans, however, is getting financing for it. (Bronebakk 2013; Heikkilä & Laukkanen 2013, 51; Paananen 2013; Valtioneuvoston kanslia 2015, 6, 24, 29, 30.)

All in all the strategic and economic importance of the Arctic is growing which will also make Finland's global position and relevance stronger (Niinistö 2013) but the strategic value is not as strong as some other Arctic States has. There is a lot of know-how and expertise in the country but it is in danger of not being noticed due to larger companies and bigger nations. The positive side is that Finland is not a threat to the bigger and more competitive powers and the business environment is therefore more open to foreign investments. Furthermore there could be opportunities to be a strategic partner with more than one superpower. (Jakobson 2010a, 13)

The reality is that Finland is a small country and many of the companies operating in the Arctic are quite small as well. That is why forming strategic groups in various industries could help in gaining competitive advantage. A strategic group is basically a group of companies in an industry that have agreed on following same or similar strategy alignments (Porter 1980, 129). Smaller companies are often more agile and able to work better with uncertainty (Comfort & Franklin 2011, 51) but at the same time the small size can make it challenging to acquire customers. Therefore Finnish companies operating in the Arctic need to create their own ways to secure agreements and deals with other companies to develop themselves. As the operational and competitive environments are highly dynamic, the managers are required to have a certain amount of entrepreneurial mindset in order for the operations to be successful in the long term.

Through forming strategic groups or clusters Finnish companies would be able to offer wide solutions instead of only pieces of a puzzle. It would be easier to sell to the customers as well since they would not need to find and buy solutions from multiple

places which take time, money and effort. The more complete the offered solution is, the better it can be customized to the customer's needs. The strategic groups would therefore benefit Finnish companies operating in the region. Team Finland could be used as a coordinator for this development path. (Laaksonen 2013; Valtioneuvosto 2013, 24, 28, 39, 41.)

As seen, one of the main threats besides the lack of sufficient infrastructure for the Finnish companies is to get sufficient financing in order to facilitate the smooth development in the Arctic. The government is eager to help in developing the region but they have limited resources and many government projects and financing is directed to the southern parts of the country. Foreign direct investments (FDI) are clearly needed in the various business areas in the Finnish Arctic. Luckily Finland has a very good reputation in the world and the country is said to be one of the best countries in the world where dynamic businesses flourish (Häyrinen 2013).

Previously China's interest in the Arctic was discussed and one of their main expansion strategies is FDI. Finland and China have an established trading partner relationship and they have offered a lot to each other in the past. Furthermore Finland was one of the first Western countries to tie bilateral relations with China. Therefore, as it is likely for China to continue their development and opening up, Finnish companies should seek for their investments. (Huang 2013.) After all the Chinese are already very interested in the Polar Sea Railway plans which would help to create a bridge between the Asian and European markets (Paananen 2013). However it needs to be kept in mind that even if Chinese companies are willing to invest now without collateral it is likely that in long term there are going to be some impacts from their FDI. For now at least the aim seems to be in creating mutual win-win situations which could outweigh the possible impacts in the future.

All things considered Finland has a great position in the Arctic and a world-class knowhow of the region. The competitiveness of Finnish companies has traditionally been very good but as the competitive environment is changing, it should be taken into account in their strategic management. In order to keep the positions they hold industries need to develop themselves and utilize strategies and entrepreneurship in order to firstly create vision and goals, and secondly execute them accordingly. To stay on top of the competition and uncertainties, the opportunities arising from the business environment need to be seen before they come obvious and the threats should be minimized or if possible turned into opportunities.

7 CONCLUSIONS

The purpose of this study was to understand how the political environment in the Arctic affects a Finnish company's strategy. This was divided into following sub-objectives:

- Describing the political environment in the Arctic
- Analyzing opportunities and threats in the political business environment of the Arctic
- Analyzing how Finnish companies could develop their strategic management plans in order to navigate successfully in the Arctic.

The economic development in the past decade has been unprecedented in the Arctic and therefore it is challenging to forecast the rate, direction and speed of it. The three sub-objectives guided the analysis process from the broader political environment to Finnish companies and what factors they should consider in their strategy process. Efficient strategy is an essential part of the success of companies in the Arctic and the strategic decisions made should be based on reasoning and knowledge rather than assumptions. Therefore understanding the business environment thoroughly can give competitive advantage against those companies that do not have complete understanding on both threats and opportunities that the environment holds.

Arctic is a place where three continents meet and to sustain good relations is essential even for that reason. The Arctic States are Finland, Sweden, Norway, Denmark, Russia, Iceland, Canada and the United States. The eight nations have altogether approximately four million people living in the Arctic and they possess most of the arctic area. There are some disputable areas that do not belong to any single country. These are potential threats to the overall environment if the disputes are to escalate at some point. So far the atmosphere has been cooperative and supportive, for example one of the disputed areas between Russia and Norway was agreed full cooperation in 2014.

This study uses the SWOT analysis to conclude the analysis. Table 7 is a representation of the business environment that Finnish companies face in the Arctic. The overall external opportunities and threats of the business environment and internal the strengths and weaknesses of Finnish companies are listed and concluded for what they mean for the future development of the companies.

Table 7 SWOT analysis of the Arctic business environment for Finland and Finnish companies

Strengths	Weaknesses
<ul style="list-style-type: none"> • Scenario planning • Existing knowhow and expertise <ul style="list-style-type: none"> ○ Technology ○ People • Team Finland • CSR activities embraced from the start • Good reputation as a business partner 	<ul style="list-style-type: none"> • Lack of information • Shortage of work force and high-quality employees • Lack of sufficient infrastructure • Obstacles to get investments • Not strong enough influencer <ul style="list-style-type: none"> ○ Finland ○ Finnish companies • No natural energy resources (oil & gas)
Opportunities	Threats
<ul style="list-style-type: none"> • Arctic Council used as a forum • Bringing Arctic Council and Arctic Economic Council closer together • Removal of barriers of entry • Natural resources <ul style="list-style-type: none"> ○ 13% of undiscovered oil ○ 30 % of undiscovered natural gas • Demand for natural resources • Demand of arctic marine equipment • Shipping routes • Polar Code & SOLAS • TEN-T • Government willingness to invest • Wide solution offering base • Strategic partnership between Finland, Sweden & Norway <ul style="list-style-type: none"> ○ Mutual regulatory system ○ Mutual knowhow & labor force • Technology advancements and knowhow • Strategic groups or clusters 	<ul style="list-style-type: none"> • Political environment's instability • Reliability of country as a trade partner • Insufficient regulatory frameworks • Governance issues <ul style="list-style-type: none"> ○ Stability ○ Hostility • Arctic Council lacking decisive power • Inefficiency of public administration • Climate change • Global economy • Environmental pollution legal requirements • Restrictive industries • Government funding (restrictive rules, bureaucracy) • Export restrictions to Russia

All of the abovementioned factors are to be taken into consideration to some degree when constructing a company's strategy. For strategic management to be successful, companies need to see the past, the present and the future potential. In the previous chapters it has been described how the political environment of the Arctic has been developing since the Cold War from an arctic desert towards a cooperative environment

where economic development is growing. The SWOT helps to understand the underlying motives and reasoning of the actors in the region.

Cooperation in the region is not new and throughout the last couple decades it has been practiced through multiple different channels such as bilateral agreements, international organizations and scientific research. The main political framework in the Arctic region is the Arctic Council which has the eight Arctic States as member states. In addition it has observer states and organizations. Throughout the years the Arctic Council has highlighted the importance of environment and sustainable development in the region. The work the Arctic Council does is based on scientific research and maintaining the cooperative atmosphere. Currently the Council does not have decisive power since the United States has refused to see it as such.

All in all the environmental focus, dictated by the fragile nature, has left the economic and commercial development in the shadow. The environmental laws are stricter and the development is carefully scrutinized in order to minimize the environmental impacts it may have. Therefore it might be that the actions of the Arctic Council may, in ways, hinder the economic growth in Arctic. If the Arctic Council and the Arctic Economic Council would establish clear relationship together, the balance between the environmental protection and business development could become clearer and create win-win situations to all parties involved.

The main point to understand is that when operating in the Arctic, companies need to be well aware of the environmental rules and regulations at all times. Many of the Arctic States wish independently economic development in Arctic but the overall opinion that is formed in the Council is still more about the preservation than actions to accommodate economic development. One reason for this might be the tense history that the region has had and the will to preserve the acquired cooperation structures.

As the political environment outside of the Arctic has tensed up it has effects in the Arctic as well. Traditionally politics and issues of the Arctic have been treated separately from the politics from outside the region. This goes back to the research and cooperation emphasis of the Council. However, the work in the Council is currently at a standstill. When the research for this study began, the political situation was challenging because of the governance issues but at the same time optimistic. Companies were expanding their operations and the Arctic states were cooperating and increasing their mutual operations. There was no immediate threat for this to be changed at that time although the global economy was still weak and deficit numbers were growing.

However, this scenario has now changed. By all accounts the region was heading towards Arctic Saga, one of the scenarios introduced in Chapter 4.4. The scenario is quite optimistic but there were indications that it was possible to achieve and that was the direction Arctic business environment was heading. Recently it has become evident that the events occurring outside of Arctic have had an effect on the overall atmosphere and

political relations, which indicates that if the path continues the region is heading more towards Arctic Race or perhaps even Polar Lows.

These darker scenarios are unfortunate for an area that has made such good progress over the years. The concern of the future development has risen and the situation is tense but the Arctic States are still willing to participate in and promote the regional cooperation. The governance issues need to be tackled at some point if any real and sustainable development is wished.

All in all, the general political environment in the Arctic is multifaceted and has multiple possible development paths. There are opportunities that should be taken advantage of as soon as possible, like the TEN-T and CETA as well as threats that should be addressed sensitively and in diplomatic matter such as the rising tension. Arctic Council has the highest influence level in the region but the bi- and multilateral agreements are very important for the Arctic States. Many of the states already have these agreements and are interested in deepening the cooperation in the future.

Although the Arctic is comprised of highly developed nations and economies, the region differs from the business environment of its southern markets. In the past business operations in the wider scale have simply not been profitable. The climate change is changing the rules and the whole environment in the Arctic, opening it up to unprecedented economic development. It can be concluded that the time of the only scientific research in Arctic is over.

The core Arctic business environment consists of the Arctic States with more and more non-Arctic states taking an interest on the region. In general the Arctic business environment is cooperative and interested in development and it is slowly becoming its own special market area. One of the boosting factors is that the Arctic States are mostly trustworthy business partners and their operations are ethical.

However, competition over trade is likely to increase and disputes between Arctic and non-Arctic states are possible in the future. As has been discovered, the Arctic environment is quite volatile and in the midst of economic change which essentially began in the 2010s. Generally, the more volatile an environment the more sources of change there are. This means both that there are more threats and opportunities in the business environment and it comes down to the individual company's capabilities and strategies, how well they are coping with them.

Thus far the development has been sustainable and structures and institutions have been created to support the positive development. The overall environment has qualifications to become a successful market with unprecedented technological knowhow and inspiring innovations in a challenging environment. The two main drivers for the development are the climate change and the increase in demand. After all the Arctic which counts only 4 % of the globe holds approximately 13 % of the undiscovered oil and 30 % of the undiscovered natural gas in the world. This by itself attracts the interest of oil

companies. There are also other natural resources in the region which is why mining is one of the biggest industries in the north.

The industry that is most likely to lead the economic development in the Arctic is the marine industry. The climate change has made the arctic waters more navigable and this development is likely to continue. The routes, NSR and North-West Passage, are only navigable few months per year and even then icebreakers are necessary. Furthermore there are not enough well-equipped ports within the routes which mean that in case there is a need to stop along the way it cannot be done. This concludes that much more infrastructure will be needed before the routes will become viable and profitable.

Furthermore the use of NSR and North-West Passage may turn out to be politically complicated and difficult because of the need to use different waters. However, in the more distant future there is the possibility to have also an intercontinental route across the North Pole which would not require following the traditional coastlines. Nevertheless in the more recent future the governance issues should be agreed somehow that there are do escalating situations appearing once the shipping routes become more viable. Steps have already been made with the Polar Code and SOLAS which have both been accepted and are to be implemented in the next couple of years.

The routes themselves bring many transportation opportunities for Arctic but at the same time it benefits the related industries. Therefore the opportunities could outweigh the obstacles. The dockyards will benefit as well as any other ice-technology related industry such as navigation and experienced seafarers. All in all, the business environment requires lot of highly-qualified labor, world-class technology and knowhow as well as understanding the overall business environment in order to become a successful market. It has the potential but the fragility of the area makes the future more uncertain.

China's interest and strategy in the Arctic was described due to several reasons; it represents a non-Arctic state that has consistently increased its operations in the north and it has an observer status in the Arctic Council. Although it is not a politically influential in the Arctic or the Arctic Council, it has political power on its own. The country does not have an official Arctic strategy but its actions follow in many ways the strategy it has followed in Africa. In practice this has meant that they are not trying to force their way or influence, in contrary they have used soft power very successfully in the past. By using soft power and noninterference tactics they can widen their influence without others feeling threatened.

This might indicate that the same strategy is being followed in Arctic. China is in the process of transforming itself from a regional power into a global one and, besides the economic incentives, the Arctic is a place to expand its influence. After all, there are already two great superpowers, Russia and the United States, in the region. In order to become a superpower, China needs strategic partnerships and they need them from the developed nations to counterbalance the ones they already have in Africa. The govern-

ance issues in the Arctic suit well for this agenda; they have created discussions or partnerships that are mutually beneficial.

Canada is a great example of this as they use China as leverage against the United States in the governance issues of the Northwest Passage and receive investments to the oil industry while China gains more energy resources and more power in the Arctic through Canada. Another good example of Chinese politics is Iceland as the Chinese have planned to develop a transshipment hub in Iceland which would decrease the need to use Russian ports during the transportation of goods through the NSR and thus decreasing Russia's political power over the Northern Sea route.

As for the Nordic countries, China sees them as great potential partners since these states often struggle to be noticed because of the stronger voices of the great powers. They are also not a threat to China since they are not superpowers. There is less rivalry, political threat, and challenges when working with these countries. Furthermore China needs the expertise that can be found from the Nordic countries. Most of the icebreakers, which are essential in arctic navigation, are built in Finland which spikes Chinese interest as they need more icebreakers. Furthermore the good relations between Finland and China promote further cooperation and investments to the Arctic which are crucially needed.

All in all, China has a clever strategy to infiltrate the Arctic. They invest a great deal to the Arctic industries thus gaining the trust and gratitude along the way. The Arctic States should be aware and cautious about this development as the cities in the north are far away from their capitals. This can make the capitals and therefore the governments seem far away and distant in many ways for the northern cities. This added to the fact that there is another government or nation that is willing to invest in the projects in the north, might cause shifts in alliances. Investments now are taken with gratitude but companies should think about what they will mean in the long term.

The last sub-objective's aim was to tie the political and business environments together and bring the analysis to Finnish companies and to the factors they have to consider in their strategic management. The key was to understand the preconditions and the present framework in which companies in the Arctic are operating. Throughout the study threats and opportunities for Finnish companies have been discussed and table 7 has collected those together. These are the base from which companies can form their strategy. There are applicable pieces for different industries and each company needs to define their own vision and goals which to follow and therefore which opportunities and threats they are utilizing and keeping in mind.

Some of the opportunities are not directly for companies as they are suggestions for the government. Were the government of Finland to understand and act upon these opportunities and threats, the business environment in the Finnish Arctic could be enhanced and they could gain much needed competitive advantage against the other seven

Arctic States. However companies can affect the political decisions to some degree and they have to be aware of the developments that will affect the operational business environment.

Finland has a great base for their Arctic development. Many industries are already top-notch and the existing knowhow is world class when it comes to Arctic technology. The entrepreneurship driven economy aids the development as well. The main Arctic industries in Finland are marine and mining industries, tourism, and ice-related technology. These are the first ones that would benefit from the development in the overall development in the Arctic.

The cooperation structures already in place should be taken advantage of and deepened if possible. Especially strategic partnership between Finland, Sweden and Norway should be explored. The advantages from creating a mutual regulatory system and a mutual labor pool would help all of the three nations in the north.

The arctic industries in Finland should consider creating strategic groups as those would widen the opportunities of single businesses. The small size of the companies is challenging and causes a lack of information about the opportunities. Furthermore customers are more inclined to buy complete solutions instead of parts and thus strategic groups could solve this issue.

The biggest challenges for Finnish companies in the short term are the lack of sufficient infrastructure and getting financing for the different projects. Investments to different industries play a crucial role in successful development. China has been willing to invest in Arctic business operations and it could be one way to find the needed investments. If China's investments are accepted their consequences should be taken into account in strategic management. One of the most important overall projects would be to be included to the TEN-T plans and beginning to construct the Polar Sea Railway which would open a gateway to the Arctic Ocean and to the global logistics.

After all Arctic development is not just Nordic or Arctic development. It will affect the whole global economy and therefore Finnish companies should prepare themselves for it. If the opportunities are utilized correctly and the threats analyzed carefully, Finland has all the possibilities in being in the center of the new market area and global logistics in the future driving the economy of the whole country upwards.

7.1 Theoretical implications

The study did not try to confirm, test, nor create a strategy. This is more common for the quantitative study method. The aim for this study was to understand a specific region and its institutions and its main factors that influence the development of the Arc-

tic. The region is consisted of developed nations but still struggle with many governance issues.

The strategic opportunities and threats were analyzed as well as the possible future development paths in the Arctic. This can shed light to the usage of scenarios in strategic management and in the future studies and how scenarios can be used as tools for companies. Furthermore the theories of strategic management are still relatively young and plentiful and this study reinforces the impression that the theories are consisted of many elements. Therefore there are multiple different strategy theories that could be utilized in companies but in many cases the operational environment and the management determine the elements that are emphasized in each company in their long-term strategies. The special characteristics of a market area can influence the direction of a strategy and especially in dynamic environments such as the Arctic it is especially important to be agile and dynamic as well. Therefore in addition to the long term strategies companies need entrepreneurial people.

From here the further research on this phenomenon could take a more micro level approaches and study the impacts of the Arctic business from a single company operating in the region. Alternatively the region is constantly developing and the cooperation structures are in flux situation. Therefore more research on the development of the Arctic would be interesting as well. These could have both political and business points of view. Especially research on the business opportunities and the economic development of the region as well as implications of the decisions made could be future research targets. This study analyzed only one part of the operational environment and thus there are more viewpoints from which the area could be analyzed.

7.2 Practical implications

This study aimed for giving companies operating in the Arctic or planning to expand operations there a comprehensive market analysis of the environment. The Arctic differs from the markets found normally from the Arctic States due to its structure and history. The opportunities and threats the business environment and the political dimension of it were introduced.

Strategic management is essential for companies as well as governments to have in place in the region which is why the definitions and implications of strategies were gone through. Strategy is however only the first step because of the dynamic nature of the Arctic. Thus the study emphasized the entrepreneurial mindset that enables the managers to act in an agile manner when needed. For this reason talent management and recruitment becomes an important issue for companies to consider. Also the structure of

the Finnish arctic business environment should really be considered in order it to stay as competitive as possible. For this the strategic groups should be formed.

Furthermore the study gives suggestions of how to navigate in the challenging Arctic environment. It is a decision for the Finnish government and companies to choose in which direction they want to develop themselves and what strategic actions they are going to implement. The threats need to be taken into account and decide how big they are for the company. The environment analyzed in this study gives companies a framework to which they need to adapt to and when the different actors and opportunities are defined it is easier to understand the overall operational environment.

Further research on this issue could be done from the point of view of one or two companies in a certain industry. This would give more precise and detailed information of how single industries see the environment and its development.

8 SUMMARY

The purpose of this study was to understand how the political environment in the Arctic affects a Finnish company's strategy. This was divided into following sub-objectives:

- Describing the political environment in the Arctic
- Analyzing opportunities and threats in the political business environment of the Arctic
- Analyzing how Finnish companies could develop their strategic management plans in order to navigate successfully in the Arctic.

To understand the political and business environment of the Arctic, first it was needed to understand the Arctic itself. After which the main political entity, the Arctic Council was defined. However as the region is quite complex and the future development uncertain, the four scenarios made of the future development of the Arctic were described and analyzed. The value of these scenarios should not be underestimated which is why the scenarios used as a strategy tool was also explained.

From understanding the basics of the general political environment in the Arctic, the study moved on to defining external business environment, political dimension in that environment as well as strategic management and entrepreneurship. Chapter 2 explains how multifaceted a business environment can be. It is consisted of the operational and competitive environments which each have multiple actors. The study however concentrated on the political dimensions found from the operational environment. The basic theories used were about strategic management. As the theory on strategy and strategic management are relatively new, there are multiple definitions and schools of thought on the matter. The study concentrated on those definitions that emphasize the environment as a part of the overall framework that companies need to consider in their strategies. In addition, as the environment was defined as very dynamic, entrepreneurial mindset was introduced as well. Entrepreneurial mindset has a direct connection to the strategy and it enables the managers to act upon issues fast and in an agile manner which is needed in the given environment.

The study was conducted by using content analysis. It is a qualitative method which utilizes already existing data instead of gathering it. This method was chosen because in order to gain understanding a broader view was needed and that would have been difficult to achieve by conducting interviews. Therefore interpretation of the existing material was chosen as the method by which the phenomenon was to be understood. As can be understood from the objective of the study, it aims to understand a particular environment and its challenges for Finnish companies.

The data collection phase was demanding as the trustworthiness and validity of each of the data sources needed to be determined. Furthermore the amount of organizations operating in the Arctic made it at times challenging to keep in mind what is relevant and

what is not. From there the data was selected, categorized by themes and time periods and then analyzed. As the environment under study had many uncertainties, so had the study itself. The usage of already existing data means that it is vulnerable of interpretation mistakes. The limitations and risks were tried however to be minimized as good as possible.

Analysis was done based on the categorizations, in other words the three main parts of the analysis were the general political environment in the Arctic, the business environment if the region, and Finnish companies in the Arctic. Each of these was gone through in detail; the general political environment where the Arctic Council has the main role and some external developments were discussed as these had had an impact on the overall political environment. Examples of these were the Polar Code, CETA, TEN-T and the Northern dimension to name a few

As a non-Arctic state, China was chosen for this study to represent another point of view to the political environment and economic development. The country has a long time been a part of actions in the Arctic but previously this has mainly been research oriented. However since the 2010s the actions of China have given indications that it has wider motives for the region and respectively it has increased its actions in the region. Lastly the Finnish knowhow of the arctic related industries was explained and so were the opportunities and threats the Finnish companies may face in the region.

In conclusion, the Arctic offers many opportunities for future economic development which is likely to be led by the marine industry and the opening of the Arctic sea routes. However the increasing business operations and trade are likely to increase competition as well. So far the Arctic States have been cooperative and there is a will to keep things that way but taking into consideration the events happening outside of the Arctic, the uncertainties are only rising. In the long run, if handled with care and caution the Arctic will prosper and the Finnish companies can formulate strategies with which they can navigate in the challenging environment with confidence. The main thing is to be prepared and accept the challenges as they come. Agility and responsiveness as well as respect of the nature and the overall framework are the keys to success in Arctic.

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