

Connecting to the right people; the key to develop business in Northwest Russia

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Abstract in Norwegian:

Russland tiltrekker seg oppmerksomhet fra utenlandske bedrifter som ønsker å få et fotfeste i et land som tilbyr billig arbeidskraft, og hvor markedspotensialet for varer og tjenester forventes å vokse. Men det viser seg at utenlandske forretningsaktører opplever at den russiske måten å praktisere forretninger på er veldig ulik den måten man er vant til å drive forretninger på. Denne artikkelen viser at bedrifter kan lære hvordan de skal drive forretninger i Russland ved å etablere kontakt med personer som kan gi bedriften viktig støtte. Den personen som har ansvar for det russiske forretningsengasjementet ble intervjuet med det formål å utforske hvilke typer aktører som gir bedriften viktig støtte. En semi-strukturert intervju-guide ble brukt til dette formålet. Den russiske dør-åpneren er en viktig aktør som hjalp bedriften i den forberedende fasen med å etablere kontakter med viktige aktører som ble en del av bedriftens nettverk. Denne studien viser at nettverksbygging er en vesentlig aktivitet som bidrar til å utvikle bedriftens forretningsengasjement i Nord-vest Russland. Imidlertid, nettverksbygging krever et personlig engasjement og et nært samarbeid med russere. Denne studien bidrar med ny innsikt når det gjelder hvordan en bedrift kan utvikle et nettverk som består av relasjoner med ulike aktører som støtter bedriftens etablering i et nytt land.

Abstract in English:

Russia attracts the attention of foreign firms that want to get a foothold in a country which offers inexpensive manpower, and where the market potential for goods and services is expected to grow. However, evidence shows that foreign business people find that the Russian way to practice business is very different from their own way. This paper shows that firms can learn how to practice business in Russia by connecting to people that provide the firm with important support. By means of a semi-structured interview guide the person in charge of the Russian business venture was interviewed to explore what kinds of actors that provides the firm with essential support. The Russian door-opener is one essential actor which helped the firm in the preparatory stage to get connected with other important actors that became part of its network. Thus, networking is an essential activity which helps the firm to develop business activities in Northwest Russia. However, networking requires personal dedication and close involvement with Russians. This study contributes with new insights when it comes to how a firm can develop a network of relationships with various actors in support of its market entry.

Keywords: Networking, door-opener, small businesses, Northwest Russia

Introduction

Russia attracts the attention of foreign firms that want to get a foothold in a market that is expected to experience high growth rates (Aidis & Adachi, 2007). Russia's role as a key player in global energy markets, and its potential as a growing market for consumer and industrial goods and services, makes the country an interesting market for for-

eign firms that want to expand (Puffer & McCarthy, 2007) and seek new opportunities in international markets (Karlsen *et al.*, 2003). Evidence shows that foreign business people in Russia do find that the Russian way to practice business is very different from their own way (Fey, 1996; Karlsen *et al.*, 2003; May *et al.*, 2005; Michailova, 2000). Even firms that have international experience are likely to face "...a new, rela-

tively unknown, and turbulent market: it was as if they almost had to start another internationalization process in addition to its more general one from scratch” (Karlsen *et al.*, 2003, p. 389). Westerners and Russians differ on a number of areas like national culture, and economic, political, ideological, religious, and social systems from which they come (Michailova, 2000).

External networks have been historically very important in Russia, and still is an important part of the society (McCarthy & Puffer, 2008; Puffer & McCarthy, 2007). There is a strong reliance on networks for the provision of information, resources and to “get things done” (McCarthy & Puffer, 2008; Melkumov, 2009). Without a well-founded network you are likely to fail in Russia (e.g. McCarthy & Puffer, 2008; Melkumov, 2009; Puffer & McCarthy, 2007). Karlsen *et al.* (2003) who focused on foreign investments in Russia show that having the right contacts are essential to get things done in an effective way. The business environment is characterised by uncertainty and vague laws and regulations. Investing in networks in the external environment is a way to deal with the underdeveloped legal framework. Reliance on networks can be viewed as one way to compensate for the lack of laws and regulations (Melkumov, 2009). Besides, being part of networks helps develop a common understanding between business partners from different cultures. Understanding of a foreign business culture can only be passed on through active involvement, preferably in the host country itself: knowledge is developed by interaction with the environment and with business partners (Meyer & Skak, 2002).

This paper shows how three small firms, located in northern Norway, develop their business in Northwest Russia by connecting to various actors that provide some kind of support. By connecting to the right people the firms have learnt how to practice business in Russia. The findings should be relevant for firms considering entering Russia. The results could also be of great rele-

vance to policy makers, and agents who facilitate exports and business investments in Northwest Russia and in other transition economies. There is a lack of research when it comes to how a firm can develop a network of relationships with various actors in support of its market entry (Elg *et al.*, 2008). This study contributes with insights on this area.

Research methodology

In-depth interviews were carried out with three small firms that have developed business activities in Northwest Russia. A semi-structured interview guide was developed on the basis of a literature review and interviews carried out with experts in Norway having knowledge about doing business in Russia. The main criteria used to select the firms were that they have carried out business activities in Russia for a longer period of time, and that they are located in northern Norway. The selected firms have carried out business activities in Northwest Russia between 6 and 18 years. Persons having an overview of firms doing business in Northwest Russia gave their assistance to identify relevant cases. The interviews were carried out in the period March to May 2010. The person responsible for the Russian business venture was interviewed. This person was selected because of his active and crucial role in the development and management of the Russian operation (Karlsen *et al.*, 2003). The interviews lasted between 2 hours and 15 minutes and 2 hours and 45 minutes. The interviews were recorded and transcribed right after the interviews. The interviewees read through the transcribed manuscripts which allowed them to give corrections, and to make sure that they would agree on the content. Two of the manuscripts were accepted without any corrections, and the third was accepted after some minor changes.

Table 1 presents the firms and include type of entry/operation mode, business area, size in terms of number of employees in Russia and in Norway, motivation for entering Russia, time spent preparing the entry, year of starting up and markets. Two firms have established a subsidiary and one has established a sales office in Northwest Russia. The firms operate within the follow-

ing business areas: engineering services, electronics and fishing equipments.

The managers interviewed in this study were determined to give Russia high priority, which implied a long-term perspective. It is well acknowledged that a long-term perspective is essential to succeed in Russia (Fey, 1996; Karlsen *et al.*, 2003; Shama, 1997).

Table 1 Presentation of the firms

Firm	Type of entry/ operation Mode	Business area	Nr of employees in Russia	Nr of employees in Norway	Motivation	Preparatory phase	Year of starting up	Market
A	Subsidiary	Engineering services	14	9	Inexpensive Manpower	1999 to 2000	2000	Outside Russia
B	Subsidiary	Original equipment manufacturing	45	18	Inexpensive Manpower	2000 to 2004	2004	Outside Russia
C	Sales to Russian customers in Norway Sales office*	Fishing Equipments	2	50	Market potential	1988 to 1992	1992 1994	Russia, Norway, other minor markets

* The firm has a sales office in Northwest Russia. The market is worked on through the sales office, like bids are offered by the sales office. The products are delivered to the Russian customers in Norway.

Getting started with networking

Networks and relations with Russians are a premise to carry out business, and it is through interactions with people in the network that you acquire knowledge about how to carry out business in Russia. A well functioning business network is a result of investments; building business relationships is a costly and time-consuming process (Johanson & Vahlne, 2006). Substantial efforts were carried out in the preparatory stage to establish contacts that could help the firms to succeed with its entry into Northwest Russia. The preparatory work implied several travels to Northwest Russia to prepare the foundation for establishing

business activities. The Norwegian managers did not have previous experience in Russia, and therefore access to essential market information was limited (Hadley & Wilson, 2003). When they took the first initiatives to enter Russia they entered into close cooperation with a Russian person who could speak Norwegian. This Russian person got the role as a door-opener and played an essential role to introduce the managers to the Russian business life. The Russian door-openers introduced the managers to the Russian culture, and could tell them what would be the right thing to do in various situations. They helped the managers to get an understanding of how things work. In addition to translating lan-

guages, they also had a role as a cultural interpreter. The door-opener had the insider's knowledge and the manager could therefore rely on the door-opener's competence to solve problems that occurred.

By introducing the managers to various people the door-opener also helped the managers to start building their networks. Certain kinds of information are not easily accessible in Russia, and the network helps you stay updated about the developments in Russia, prices and wage levels, and new regulations to mention some. Besides, the managers' experience is that being part of a network is essential to develop a good record and reputation. It is through knowing people that you show who you are. Russians are loyal when you have established a good relationship with them. In the same way, other researchers focusing on foreign investments in Russia find that a network of supporting relationships contributes to a positive image and a strong market position (Elg *et al.*, 2008).

The capabilities of the individual

Russian people are in general very relation-oriented. You have to meet people face-to-face to establish relationships, and you have to be good at developing inter-human relations. Good relations with partners in your business network make things work more efficiently. Consequently, the capability to develop and manage networks is therefore of critical importance (Agndal & Chetty, 2007; Holm *et al.*, 1996). The person in charge of a foreign business venture has to be prepared to interact with local firms, interest groups and institutions in the foreign market (Meyer & Gelbuda, 2006). Close business relationships provide experience and market knowledge, and thus risk and uncertainty about the foreign market is reduced (Agndal & Chetty, 2007; Hadley & Wilson, 2003). To succeed in adaptation to a culturally different environment, an individual's capability of and predisposition for interacting with people in the

host country is of great importance (Hannigan, 1990).

The managers' experience is that mastering the Russian language is an advantage. The quality of the communication with your Russian partners is significantly better if you know the Russian language. Language skills help you communicate with your partner in an effective way. Mastering the Russian language fluently gives you an advantage because you do not depend on others to interpret the discussions that you have. Using an interpreter creates a distance; you get closer to another person if you can communicate in her/his own language. Formal and informal communication that takes place within and between firms and in networks requires people who have language skills (Liesch *et al.*, 2002). A firm that invests in language skills shows that it has a genuine will to understand the partner (Salmi, 2000).

Patterns of networks

Establishing a network is a process and the network is likely to expand over time. The network may include customers, employees, suppliers of services, people that are involved in the firm's business area like regulatory and public agencies, experts and more personal relations (others). The kind of information and support required may change over time with the result that the network is developed and extended as a result of changing needs for support and information. As table 2 shows, the composition of the network differs between the three firms. Differences may be explained by the kind of business that the firm is part of, type of operation mode used, and whether Russia is a market. In the case of firm A, the major task in the preparatory phase was to recruit the right personnel. This firm entered Russia because of inexpensive manpower. You need references to assure that you recruit the right person, and the network helps to identify the right people. The experience is that you risk

recruiting the wrong persons in the initial phase because the network is limited. Besides, a Russian legal practitioner was used to make sure that the subsidiary was established according to acceptable rules and

regulations. The contact with the legal practitioner has been maintained and is used as a discussion partner.

Table 2 *Patterns of business networks*

	<i>Important network partners in Northern Norway</i>	<i>Important networkpartners in Northwest Russia</i>	
		<i>Preparatory phase</i>	<i>Operation phase</i>
Case A		Employees Legal practitioner	Employees Legal practitioner Other contacts
Case B		Public agencies	Public agencies Employees Suppliers of services Other contacts
Case C	Firms supplying complementary products and services	Customers	Customers Sales representatives Public agencies Other contacts

The customers are an essential part of the network for a firm that supplies products or services to the Russian market. Firm C entered Russia because of the market, and the customers were therefore considered to be the most important collaborating partners in the early stage. The firm spent a longer period of time mapping the market which implied visiting all potential customers in the Murmansk and Arkhangelsk regions. This mapping provided the basis from where customers were selected. You have to pay your customers frequent visits. It is by meeting your customers that you get to know who they are, you can exchange information about price, products, future deliveries and any changes that are taking place in the industry. A formal contract has so far not been of great value in Russia, although this is changing. You can have long-term business relationships with Russian partners without a contract. Close and trusting relationships with your customers are therefore of great importance. Firm C is part of a horizontal network. This network includes firms in Northern Norway

that have complementary services and products. In this way the firms are in a better position to compete because they can offer their customers a broader spectre of products and services. They also carry out joint marketing efforts.

Having relationships with public agencies is considered important by two of the firms. It was of great importance for firm B to establish relations with bureaucrats in the preparatory stage. Meetings were held to discuss issues related to mortgage rights, tax legislation, and various economic models, among others, which helped prepare establishing a subsidiary. Besides, this firm finds that close relations with employees in the customs clearing is important to get things done in an effective way. Your international customers have to know that they receive the products on time, which implies that the products have to cross the border without hindrances and delays. Firm C established relations with bureaucrats at a later stage. The firm finds that relations with bureaucrats in the administration help the firm to stay informed

about new regulations that could be implemented and may affect its business area. You have to be aware of potential changes in order to plan the future activities of your business.

Frequent interactions

The managers have frequent communication every day with the person in charge of the Russian business operation by means of telephone and text messages. You need to stay updated on a continuous basis about what is going on. It is important to take into consideration the views of the Russians because they are better informed than you about what is going on in the market. Information required may include prices, availability of the various products, production records and sales volumes, customer needs and plans, market situation and information about potential changes in the business environments.

Relations are also developed and taken care of by frequent travels to Russia. The managers emphasize the importance to meet people face-to-face on a regular basis. The managers state that presence is Alpha and Omega to succeed in Russia. Frequent interactions with the actors in a network show that your firm has a strong commitment to the relationships (Johanson & Vahlne, 2006). Developing and maintaining business relationships through regular interactions, sharing information and building trust are considered important practices not only to get access to important information but also to reduce the lack of knowledge between partners (Agndal *et al.*, 2008).

Conclusions

This paper shows that having previous experience in Russia is not necessarily decisive to succeed with establishing business in Northwest Russia. Findings suggest that if you do not have previous experience and

do not know the language, you could cooperate closely with a Russian door-opener who masters the Norwegian language. The three firms cooperated with a Russian door-opener in the preparatory stage who introduced the managers to the Russian business life. Joining the manager in meetings with potential customers, bureaucrats and experts was one essential action of the door-opener. A second important function of the door-opener was to explain what would be the right thing to do in different situations. The door-opener played the role as a cultural interpreter as well as the translator of languages.

Second, you have to make frequent travels to Russia in order to establish contacts with key persons. Maintaining relations with key actors in the network relies frequently on the individual person, and if this person for some reason disappears the network may collapse. Managers should therefore find some way to protect the network. Two of the firms in this study have a Russian employee in the Norwegian firm who is involved in the Russian business venture. In other words, the firms have at least two people in regular contact with key actors in the network in Russia. In this way the firm reduces the reliance on one person and minimizes the disruption should one person leave or not be available to make the regular visits to its foreign contacts. This helps protecting and monitoring networks as well as assists knowledge development (Welch & Welch, 1996). Besides, the Russian employee has the language skills and the cultural understanding which helps assess market information. It would be an advantage that also the Norwegian business person knows the Russian language, because it will make him/her more independent in his/her interactions with Russians. Language skills help reduce cultural differences and thus, attain acceptance from and improve communications with the foreign partner (Evans & Mavondo, 2002; Usunier & Lee, 2005).

To conclude, evidence suggests that a firm which wants to enter Russia has to

make use of local competencies from day one. This can be done by appointing a Russian door-opener who works closely with the firm's employee who is appointed to take care of the Russian business venture, or employ a person who knows Russia and the business area well from previous experience and speaks Russian flu-

ently. Selecting a qualified and trustworthy person is the key in both cases. Finally, connecting with the right people that can give valuable support to the firm is essential. Each firm has to make its own assessments when it comes to which kinds of actors that would be beneficial for the firm to connect with.

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