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**EXPANDING BUSINESS OPERATIONS FROM THE KAINUU REGION
INTO THE RUSSIAN MARKET**

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<p>The aim of this thesis is to help the companies in the Kainuu region to be aware of the challenges they might face in case of expanding their business operations into Russia. The main research problem is to find out what kind of challenges small and medium-sized enterprises in the region face when conducting Russian business. Other research problems are to find out what kind of services companies need during their internationalization and what is the level of interest towards the Russian market among companies in Kainuu and whether the companies would like to participate in a networking project or start other type of cooperation with a Russian partner.</p> <p>The theoretical section of the thesis consists of three main chapters from which the first provides the main aspects of cross-border network and cooperation. It presents the European Union Neighbouring programmes, cooperation between Russia and European Union, as well as cooperation at national and regional levels. The next chapter gives an overview of the reasons that drive companies to expand internationally and also the most common entry strategies they use. It introduces service organizations that provide support for small and medium-sized enterprises and some of the challenges related to foreign trade. Chapter four deals with Russia as a target market, including the PESTEL analysis of the business environment. It provides information about the importance of Russia for the Finnish economy, possibilities that the Russian market offers to the Kainuu region and challenges related to trade with Russia.</p> <p>The study results are based on a mixed method research, which was conducted via online questionnaire in the Kainuu region during January 2015. The respondents were chosen based on their experience or potential interest in Russian trade. The study showed that enterprises in Kainuu are interested in expanding their operations into Russia and participate in networking projects with a Russian partner. Despite Russia's membership of the World Trade Organization and efforts done by the European Union to remove trade barriers, there are still many challenges when entering and operating in the Russian market. One of the greatest challenges are the border formalities. Despite the variety of challenges, less than half of the respondents informed of having the need for internationalization services. Most of those companies that expressed their need for services, would like to receive consulting services and information about the Russian market. Companies that are considering expanding their business operations into Russia should take into account the challenges presented in this research that they might also have to face while entering and operating in the Russian market. They should also estimate their own recourses, whether the company has what it takes to succeed in the Russian market.</p>	
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<p>Tutkimuksen tavoitteena on auttaa kainuulaisia yrityksiä olemaan tietoisia haasteista, joita ne mahdollisesti kohtaavat laajentaessaan yritystoimintaansa Venäjälle. Tutkimusongelmana on selvittää, minkälaisia haasteita kainuulaiset pienet ja keskisuuret yritykset kohtaavat Venäjän-kaupan yhteydessä. Tutkimuksessa pyritään myös selvittämään, minkälaisia tukimuotoja yritykset tarvitsevat kansainvälistymisprosessiansa aikana. Kolmas tutkimusongelma on kartoittaa kainuulaisten yritysten kiinnostusta Venäjän markkinoita kohtaan. Tarkoituksena on tiedustella onko yrityksillä halukkuutta osallistua verkostoitumishankkeeseen tai muun tyyppiseen yhteistyöhön venäläisen toimijan kanssa.</p> <p>Teoria koostuu kolmesta pääkappaleesta, joista ensimmäinen käsittelee rajan ylittävää verkostoitumista ja yhteistyötä, mukaan lukien Euroopan Union naapurisuusohjelmat. Kappaleessa tarkastellaan myös Venäjän ja Euroopan Unionin välistä yhteistyötä sekä kansallisella ja alueellisella tasolla tehtävää Venäjä-yhteistyötä. Seuraava kappale tarjoaa silmäyksen syihin, jotka vaikuttavat yrityksen päätökseen laajentaa toimintaansa ulkomaille sekä esittelee yleisimmät ulkomaan markkinoille meno-strategiat. Siinä perehdytään myös yrityksille tukea tarjoaviin palveluorganisaatioihin ja yleisimpiin ulkomaankaupan haasteisiin. Kappale neljä käsittelee Venäjää kohdemaana, mukaan lukien PESTEL-analyysi liiketoimintaympäristöstä. Se tarjoaa myös tietoa Venäjän merkityksestä Suomen taloudelle, liiketoimintamahdollisuuksista Kainuun alueen yrityksille sekä Venäjän kauppaan liittyvistä erityishaasteista.</p> <p>Tutkimuksessa yhdistettiin kvalitatiivisen ja kvantitatiivisen tutkimuksen elementtejä. Tutkimustulokset pohjautuvat kyselyyn, joka suoritettiin verkkokyselylomakkeella Kainuun alueella tammikuussa 2015. Vastajat valittiin sillä perusteella, että heillä on kokemusta tai mahdollista kiinnostusta Venäjän-kauppaa kohtaan. Tutkimus osoitti, että kainuulaisten yrittäjien keskuudessa on kiinnostusta laajentaa yritystoimintaa Venäjälle ja osallistua verkostoitumishankkeisiin venäläisen toimijan kanssa. Venäjän Maailman kauppajärjestön jäsenyydestä ja Euroopan Unionin tasolla kaupan esteiden poistamiseksi tehdyistä ponnisteluista huolimatta Venäjän markkinoille pyrkivät ja siellä toimivat yritykset kohtaavat yhä monia haasteita. Yksi suurimmista haasteista on rajamuodollisuudet. Vaikka yritykset kohtaavat monia haasteita, alle puolet vastaajista ilmoitti tarvitsevansa kansainvälistymispalveluja. Suurin osa palveluja tarvitsevista yrityksistä haluaisi saada konsultointiapua ja tietoa Venäjän markkinoista. Yritystoimintansa laajentamista Venäjälle suunnittelevien yritysten olisi suotavaa ottaa huomioon tässä tutkimuksessa esille tulleet haasteet, joita ne mahdollisesti kohtaavat Venäjän-kaupan yhteydessä. Niiden kannattaisi myös arvioida onko yrityksellä tarvittavia resursseja menestyäkseen Venäjän markkinoilla.</p>	
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PREFACE

I wish to express my sincere thanks to the commissioner, the Regional Council of Kainuu for offering an interesting topic for my thesis. It is my hope that this research will be beneficial for the commissioning organization.

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LIST OF SYMBOLS

BLC	Barents Link Center office building in Kostomuksha Russia
CBC	Cross-Border Cooperation
ELY Centre	Centre for Economic Development, Transport and the Environment
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ENPI CBC	European Neighbourhood and Partnership Instrument Cross-Border Cooperation
ERDF	European Regional Development Fund
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	The International Monetary Fund
INTERREG program	Interregional program INTERREG is an initiative which aims to promote cooperation between regions. It covers only the European Union Member States and is financed by the Structural Funds.
INTERREG – Tacis	Cross-border cooperation, which receives funding from both INTERREG and TACIS programs. The program provides funding for interregional cooperation across Europe. It covers only the EU Member States and is financed by the Structural Funds.
IT services.	Information Technology services
JV	Joint Venture
Karelia ENPI CBC	The Karelia ENPI CBC Programme is a cross-border cooperation programme implemented in the regions of Kainuu, North Karelia and North Ostrobothnia in Finland and in the republic of Karelia in Russia. The key objective of the programme is to increase wellbeing in the programme region with cross-border cooperation.
LSP	Large Scale Project

MEDA	Mediterranean Region Assistance Programme
ODA	Official Development Assistance
PCA	Partnership and Co-operation Agreement
PESTEL analysis	<p>Political, Economic, Social, Technological, Environmental and Legal analysis</p> <p>PESTEL analysis is used to assess those six external factors in relation to a business situation.</p>
SME	Small or Medium-sized Enterprise
TACIS-programme	<p>Technical Assistance to the Commonwealth of Independent States</p> <p>The TACIS program provides funding for the European Union's relations with Eastern Europe and Central Asia</p>
WTO	World Trade Organization

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1 INTRODUCTION

This thesis will discuss the challenges that companies face when internationalizing their operations into the Russian market. Another topic that will be discussed is the company cooperation and network between companies located in the Kainuu region and in Russia. There are already many Finnish companies that operate in Russia and there are probably many businessmen at the moment thinking about expanding their business operations into the Russian market. By identifying the current challenges that companies are facing, could help those companies that are still in the planning phase to circulate those challenges that other companies have faced before them.

Since the collapse of the Soviet Union the relationship between Finland and Russia has deepened. Today Russia is the second biggest business partner of Finland. From 2012 Russia has been a member of World Trade Organization. It has been expected to have many beneficial effects on the economy of Finland. Russia plays an important role in the economy of Kainuu as well. Kainuu is situated in the eastern part of Finland and there is a border checkpoint in Vartiusselkä that enables people and goods to move easily from one country to another. It has been estimated that Russian tourists bring tens of million euros to the Kainuu region per year.

The topic of the thesis is very current since the rebellions in Ukraine and the occupation of Crimea have influenced the relationship between Russia and the Western countries including Finland. Western countries have imposed sanctions on Russia and in response Russia has imposed bans on the Western countries. It is still too early to say what will be the total impact of the events related to the Ukrainian crisis on the Finnish economy and companies. Despite the current political and economic situation, the Kainuu region including public organizations and private enterprises should be prepared for the next economic upswing. In case there are some actions that could be taken to help the enterprises to achieve the capacity and knowledge how to enter the Russian market, it could be very beneficial for the Kainuu Region to take care of those needed actions during this economic downturn.

The commissioner of the thesis is the Regional Council of Kainuu (Kainuun liitto in Finnish). The Regional Council of Kainuu is a regional development authority in the region. The topic of this thesis is related to their document *Russia strategy of Kainuu 2020*, which was published in

January 2014. The strategy aims to implement the regional objectives of activating and diversifying development in the Kainuu region. By implementing the Russia strategy, new markets, industries and jobs will be created and it will strengthen the competitiveness of the region. (Kainuun liitto 2014, 55.) *The Russia strategy of Kainuu 2020* is a result of a broad collaborative network of Kainuu. The network consists of different stakeholders and experts, such as Kajaani University of Applied Sciences, which particularly has been an active participant. *Russia strategy of Kainuu 2020* supports the regional plan as well as short and long term key developmental projects of the Kainuu region. *The Russia Strategy of Kainuu 2020* also includes an implementation program, in which certain developmental and promoting activities have been indicated for various organizations in response. A separate follow-up group and a committee of executives have been established for this purpose. They will prepare action proposals for the regional board, for the authorities and for the participants of the Russia cooperation network. (Keränen 2014.)

This thesis will serve the execution of *Russia strategy of Kainuu 2020* mostly in the company cooperation area. The business cooperation is seen as a key action area in the strategy. Through business cooperation there is a possibility to get new businesses and economic growth in the Kainuu region. The Regional Council of Kainuu is eager to find out what are the main reasons that are slowing down or preventing the company cooperation and development of trade between Russia and the Kainuu region. The Regional Council of Kainuu also aims that based on the research of this thesis, clear assignments could be drawn for authorities and organizations in the Kainuu region as well as in other parts of Finland. It is important to find out what kind of support services businesses need on both sides of the border when trading with a Russian partner. (Keränen 2014.)

To conclude the the aim of this thesis, it is to help the companies in the Kainuu region to be aware of and prepared for the possible challenges that they might face in case of expanding their business operations to Russia. The main research problem of the thesis is to find out what are the challenges that companies are facing when entering the Russian market. The second research problem is to find out what kind of services companies need during their internationalization. The third research problem is to find out the level of interest towards the Russian market among companies in Kainuu and whether they would like to start cooperation with a Russian partner. There have been conducted a few researches related to the topic, but none of them relates directly to the Kainuu region and companies operating in the area. This

this thesis will examine the business internationalization from the point of view of the Kainuu region.

The theoretical framework of this thesis consists of three themes (Figure 1). The first one is cross-border network and cooperation, including networking in business life and different modes of cooperation with a Russian partner at EU, national and regional levels. The second theme will explore entering foreign market, including motives, strategies, services available and challenges. The third theme will discuss Russia as a target market and how cross-border network and cooperation, as well as elements of entering foreign market apply in Russia.

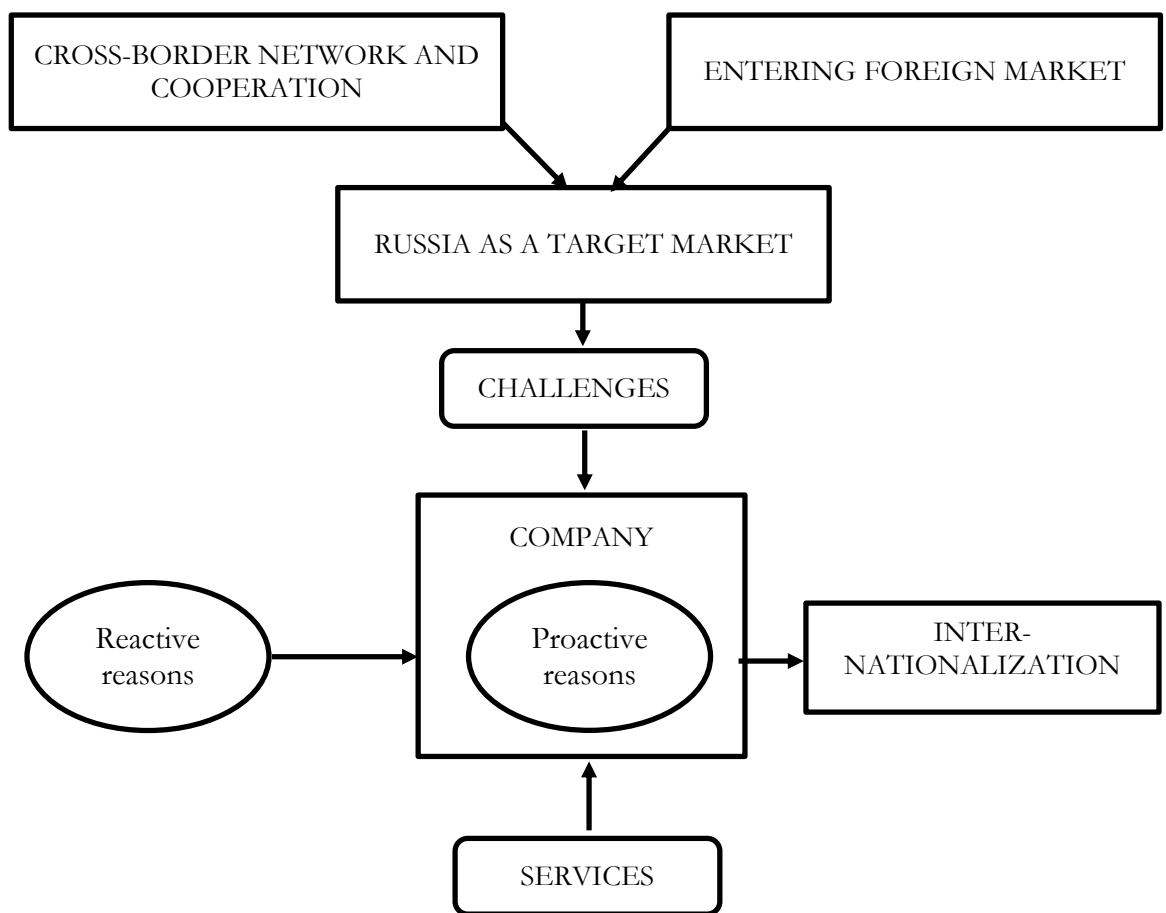


Figure 1. Theoretical framework of the thesis (own picture)

Companies have certain motives and reasons why they want to expand their business operations into Russia. The reasons that occur inside the company are proactive and reasons that affect from the outside of the company are reactive. Russia as a business environment is quite different compared to Finland and due to the difference, it causes many challenges for Finnish small and medium-sized enterprises. Fortunately, there are organizations that offer support

services for companies to help with some of the challenges. In case the company has strong enough motives, as well as resources and is able to overcome the challenges, it may lead to internationalization and competitive business operations in Russia.

2 CROSS-BORDER NETWORK AND COOPERATION

According to the definition of the Investopedia Online Dictionary (2014) networking is a process that fosters exchange of information and ideas within groups or individuals that have a common interest. There are two main categories in networking: social and business. In business networking, one of the main objectives is to form professional relationships that may boost business and employment prospects.

2.1 Networking in business life

A business network is a collaborative action in which businesses form alliances with other suppliers to meet mutual goals. According to researches, companies that are part of a network are receiving massive gains in productivity, revenue and product creation. Business network is an open on-going dialogue between customers and partners. Companies are sharing vital information with each other. (Nelson 2013.) Today all companies are part of some kind of network. Companies are facing with the question of how well to utilize the network. Some companies manage to establish stable relationships with their suppliers, customers and competitors. They try to utilize networks as efficiently as possible whereas other companies do not see the effort to same extent. (Lehto 2012, 8.)

Nowadays in the business environment, it is vital for people to share information and resources efficiently and in a cost saving way. A business network is one of the ways for people to accomplish efficient usage of resources. As small and medium-sized companies work together, they can take on projects that they might not have been able to manage individually. A network is formed because companies are looking for new opportunities for growth and solutions to specific problems. Networks may have regular meetings face-to-face, use a shared website or communicate through email and message boards. There are many types of business networks. They can consist of companies operating in the same industry or neighbourhood. They can be formed by people with the same gender or ethnic background. In addition to shared resources and pools of information, companies achieve many advantages by joining a business network. A business network can also serve as an alliance for people with a common problem, for instance a pending legislation, which could have an unfavourable impact on the

members' industry in case it got passed. People who are interested in being a part of a network can join an existing one or form a new group. (WiseGeek 2014.)

2.2 Cooperation through EU neighbouring programmes

The European Community has funded cross-border and other territorial cooperation at the borders between the Member States through the European Regional Development Fund since 1990. Funds have also been used for external border cooperation, but the usage has mostly been limited to the Member State side. Norway, Iceland and Switzerland participate in the EU's INTERREG programmes even though they are not Member States. Partners from those countries, however, do not receive any funding from the EU. Coordination of funding for external border cooperation has always been a challenge for the EU. (Ministry for Foreign Affairs of Finland 2011, 8.) The funding of external border cooperation projects has been complemented with TACIS-programme (Euregio Karelia 2004, 2). The coordination of those projects has been challenging (Euregio Karelia 2004, 10).

The European Commission proposed a new instrument for the Neighbourhood Policy in July 2003. The initial model for 2004 – 2006, which combined INTERREG and Tacis/MEDA funding in the Neighbourhood Programmes, was based on the methods already in use on the Finnish– Russian border. The Neighbourhood Programmes introduced joint project selection and joint programme bodies in 2004 – 2006. These programmes had a single application process, which meant that both sides of the border were covered and they were managed by partnerships at the national, regional and local levels. The EU's external cross-border cooperation was composed into the new European Neighbourhood and Partnership Instrument (ENPI) for the budgetary period 2007 – 2013. The ENPI CBC was a new type of cooperation, in which the purpose was to combine the EU external relations policy framework with the management procedures that were tested in the internal cross-border programmes. (Ministry for Foreign Affairs of Finland 2011, 8.)

The regional development authorities are responsible for implementing the cooperation. There are four objectives in The ENPI Cross-Border Cooperation. Firstly, ENPI aims to promote economic and social development in border areas. The second objective is to address common challenges and thirdly to ensure efficient and secure borders. Last but not least,

ENPI seeks to promote people-to-people cooperation. ENPI CBC programmes play an important role in EU external policy processes, including the Northern Dimension and the Eastern Partnership, as well as in the EU's macro regional strategies, the EU Baltic Sea Strategy and the EU Danube Strategy. (Ministry for foreign affairs of Finland 2011, 8.)

The ENPI CBC programmes, as well as the previous Neighbourhood Programmes, have started a new way of cross-border cooperation at the EU's external borders. A cross-border cooperation partnership takes a long time to mature and the results of intensive cooperation will come to fruition only in the coming years. Since all ENPI CBC programmes are different, the aims of partners in external border cooperation can be different from each other. Despite the challenges, ENPI CBC programmes can be considered successful. (Ministry for foreign affairs of Finland 2011, 10.) The new ENI CBC programme period 2014 - 2020 will continue the European Neighbourhood Policy (ENP) and provide economic support to the EU's external relations with Southern and Eastern neighboring countries. The objectives are based on opportunities for improving public interest on developing law, democracy, human rights and social cohesion. Three programmes implemented in Finland will continue on the basis of the existing ENPI CBC programmes. (Cross Border Cooperation Programmes n.d.)

2.3 Cooperation between EU and Russia

At present Russia takes part in five ENPI CBC programmes: Kolarctic, Karelia, South-East Finland – Russia, Estonia – Latvia – Russia, and Lithuania – Poland – Russia. The Russian Federation is not receiving any Official Development Assistance (ODA), unlike other EU external border cooperation partner countries. Neither does the R.F fall within the scope of the EU Neighbourhood policy. The Russian Federation decided to award 105 million Euros to co-finance the EU external border cooperation programmes for period 2007– 2013. The fact that Russia participates in financing reflects equal partnership and gives a solid base for future cooperation. (Ministry for foreign affairs of Finland 2011, 9.)

The current basis for cooperation between EU and Russia is the 1994 Partnership and Cooperation Agreement (PCA). The ongoing EU-Russia cooperation covers four policy areas, which are economy and environment, freedom, security and justice, external security as well as research and education, including cultural aspects. The Partnership for Modernization following the 2010 Rostov Summit, deals with all aspects of modernization, including economic,

technical rule of law and functioning of the judiciary. Recent partnership initiatives include rule of law projects meaning setting up an appeal system in the Russian judicial system and anti-corruption activities. It also includes civil society development, as well as economic and technical modernization. All in all, the EU and Russia cooperate on many bilateral and international concerns, for example climate change, drug and human trafficking, organized crime, counter-terrorism, non-proliferation, the Middle East peace process, and Iran. (European Union: External action n.d.)

2.4 Cooperation between Finland and Russia

Finnish border regions started their cooperation with the Russian counterparts after the collapse of the Soviet Union in the early 1990s. At that time the cooperation was funded through the 1992 bilateral Neighbouring Area Cooperation Agreement by the Finnish regions and by the Finnish Ministry for Foreign Affairs. After Finland joined the European Union, cooperation between Finnish and Russian regions was also financed from INTERREG funds and Finnish State through multiannual programmes. The INTERREG – Tacis neighbourhood programmes between Finnish and Russian regions in 2004 – 2006 gave inspiration for the development of the ENPI CBC concept. The regions on both sides of the border have created cooperation networks that can be used for regional development. (Ministry for foreign affairs of Finland 2011, 7.)

During the years 2007 – 2013 there were three ENPI CBC programmes running at the Finnish-Russian border with total funding of 190 million Euros. The cooperative projects of cities, universities, companies and non-governmental organizations brought communities from both side of the border closer to each other, fostering economic and social development. ENPI CBC also grants money for infrastructure investments. (Ministry for foreign affairs of Finland 2011, 9.) One example of successful cross-border cooperation that supports economic and social development has been between the regions of South-East Finland, St. Petersburg and Leningrad region. The increase in foreign trade between Finland and Russia has been especially beneficial to the border areas. The increased number of Russian tourists is an important source of revenue for South-East Finland and has led to investment in services and more jobs. The number of Finnish companies in St. Petersburg has increased, as well cooperation be-

tween businesses, universities, cities and local communities is intensifying and will create positive synergies. The already implemented cross-border programmes have resulted in many new networks and partnerships. All cooperation benefits the participating regions in both countries. The ENPI CBC plays an important role in supporting cooperation and enhancing potential for development. (Ministry for foreign affairs of Finland 2011, 11.)

2.5 Cooperation between the Kainuu Region and Russia

The Kainuu region has 262 kilometres of common border with Russia. The location of the border line has remained the same since 1595 and is the oldest of Europe's external borders. The construction work of Kostomuksha in 1970-80's changed the position of Kainuu from outlying area into a region of international cooperation. The Kostomuksha project was significant for Kainuu and the region learnt a lot about international cooperation. The construction phase employed one and a half thousand people in the Kainuu region for nearly a decade and the income effect was approximately EUR 300 million. The construction industry such as concrete industry in Kainuu strengthened in the impact of the Kostomuksha project and a factory manufacturing railway wagons was set up in Otanmäki. The construction of Kostomuksha was completed in 1983 and the city is approximately the same size as Kajaani when considering the number of population (30 000 inhabitants) that consists of 100 different nationalities. The average age in Kostomuksha is still low and the population is healthy. (Kainuun liitto 2014, 19.)

An international border crossing point Vartius-Lyttä opened in Kuhmo in 1992. The traffic grew rapidly, and today there are about half a million border-crossers per year, two-thirds of whom are Russians, mainly from Kostomuksha. The Vartius customs permanently employs about twenty people and about seventy people are working on the border. (Kainuun liitto. 2014, 19.) The traffic in Vartius is expected to grow strongly, if the visa-free travelling between Russia and EU comes true. It is expected that the agreement will be reached during the upcoming years, and visa-free travelling can be implemented by the end of this decade. (Kainuun liitto 2014, 21.)

The close location of Russia offers many opportunities for successful cooperation. Kainuu has a long history of neighbouring area cooperation with Karelia and other Russian regions.

Today there are several forms of cooperation, such as European Neighborhood and Partnership Instrument ENPI programme and Euregio Karelia forum. The object of them is to develop and reinforce the region. In addition to the Kainuu region, North Karelia and Northern Ostrobothnia in Finland are also taking part in the ENPI CBC Programme, as well as the republic of Karelia in Russia (Figure 2.). Karelia ENPI CBC Programme provides a framework for ongoing cross-border cooperation. It was formerly pursued through the Interreg II and III A Karelia Programmes and the Euregio Karelia Neighbourhood Programme. (Regional Council of Kainuu 2013.)



Figure 2. Map of Karelia ENPI CBC programme (Pohjois-Karjala 2011)

The ENPI programme 2007-2013 funding was 46.4 million euros, of which Finland's share was EUR 11.6 million. Russia participated with EUR 11.6 million and the EU 23.2 million euros. (Karelia ENPI CBC n.d.) The total number of projects funded was 62 (Kainuun liitto 2014, 24). In the Kainuu region ENPI programme has funded twelve projects, including two large scale projects (LSP) (Mustonen 2014). The projects developed cooperation in the fields of cultural tourism, transport, bio-energy, natural reserve and social work. The projects

amounted to approximately EUR 14 million. The largest single project has been repairing the road between Härmänkylä-Vartius (road no. 89) worth of about 5 million euros. In addition, Kainuu was involved in a number of joint projects. (Kainuun liitto 2014, 24.)

The Kainuu region is taking part in the new CBC Karelia 2014 - 2020 programme (Cross Border Cooperation), which is a continuation of the ENPI programme. CBC Karelia 2014 - 2020 programme will deepen the existing cooperation in business, education, cultural life and in other areas promoting the welfare of society. Cross-border cooperation is seen as a complementary instrument of regional development. Each region, on both sides of the border, has their own regional development strategy. ENI programme differs from the development of these programmes and strategies in such a way that its main focus is on the common cross-border objectives and measures that will benefit both sides of the border. The partner institutions are responsible for project preparation and making decisions. In Finland those partner institutions consist of financial authorities, regional councils and the Centres for Economic Development, Transport and the Environment (ELY) as well as the Ministry of Employment and the Economy and the Ministry for Foreign Affairs. (Kainuun liitto 2014, 24-25.) In Russia the responsible organizations are regional council, as well as the Ministry of Development and Ministry for Foreign Affairs. Preparation for CBC Karelia- programme has been started in 2013. The aim is to start the new programme in 2015. (Kainuun liitto 2014, 26.)

Euregio Karelia was founded in February 2000. It is a cooperation forum that consists of three Finnish regions including Kainuu, Northern Ostrobothnia and Northern Karelia and the Republic of Karelia in Russia. The objective of the Euregio Karelia is to improve the living conditions as well as the quality of life of the people living in these regions. The way to achieve the objective is by working together on a practical level. The highest decision-making authority of Euregio Karelia is its government. The government has a meeting at least once a year. The Regional Mayor of Kainuu acted as the chairman for the government in 2014. (Regional Council of Kainuu. 2013.) One of the most evident outcomes of the Euregio Karelia forum is the Barents Link Center office building (BLC) in Kostomuksha Russia. The office building was constructed as a part of the Barents Link Forum project in cooperation between the Kainuu region and Kostomuksha city in 2007-2009. The project, as well as the building, was funded by the Euregio Karelia Neighbourhood programme. The center is intended to serve primarily enterprises from the Kainuu region to enter the market of Kostamuksha and more widely other parts of Russia. The Regional Council of Kainuu and Kostomuksha city have made a cooperation agreement until 2017. The agreement is reviewed annually. The aim is to develop

the usage of the BLC by marketing it, not only for companies in Kainuu, but for companies in other regions in Finland as well. The strategic objective is that the BLC would serve as advisory centre for operators of cultural cooperation and civic activities as well as for companies in northern and eastern Finland. (Kainuun liitto 2015a.)

The most significant form of cooperation within the Barents Region is the participation in the Barents Regional Council. The Council consists of 13 member counties (Figure 3.).



Figure 3. The map of Barents Region. (Pohjois-Karjala 2012)

The member regions in Finland are Kainuu, Lapland and Oulu Region. North Karelia was approved as observer in 2008. In Norway the participating areas are Finnmark, Nordland and Troms. In Russia there are five regions that take part: Arkhangelsk, Karelia, Komi, Murmansk and Nenets. Norrbotten and Västerbotten in Sweden are participating in the Barents Regional council as well. In addition to the Regional Council, there is also a Regional Committee, which is a forum for civil servants from the member counties and a representative of the indigenous peoples. One of the responsibilities of the Regional Committee is to prepare the meetings of the Regional Council. (Regional Council of Kainuu. 2013.)

3 ENTERING FOREIGN MARKET

This chapter gives an overview on the reasons that affect the companies' decision to expand their business operation into foreign market. After the decision is being made, the company has to decide which entry strategy to use. That is why the different entry strategies, including exporting, licensing, franchising, strategic alliance and joint venture are examined as well. The chapter three also provides information about the public organizations that offer service and support for companies that are planning to enter a foreign market. Despite the services that companies are being offered, there are still many challenges for companies to face. The most common challenges are presented at the end of the chapter.

3.1 Reasons to go international

The most obvious factor why a company chooses to go international is the same reason as in many other business related decisions: willingness to succeed (Czinkota 2004, 3). Usually there are two main factors for companies to enter foreign market: proactive and reactive (Figure 4.) (Czinkota 2004, 4).

PROACTIVE MOTIVATIONS	REACTIVE MOTIVATIONS
• Profit advantage	• Competitive pressures
• Unique products	• Overproduction
• Technological advantage	• Declining domestic sales
• Exclusive information	• Excess capacity
• Managerial urge	• Saturated domestic markets
• Tax benefit	• Proximity to customers and ports
• Economies of scale	

Figure 4. Why companies go international (Czinkota 2004, 4.)

Proactive reason means that the internationalization is planned by the CEO. The second reason is called reactive. It means a situation in which company has a need to internationalize in order to survive. (Tsirkunov 2013, 3.) Of course, one factor alone rarely leads to internationalization, instead the reasons are most likely mixed and multiple (Czinkota 2004, 4).

3.1.1 Proactive reasons

Willingness to increase profit and growth of the company is one of the most evident reasons for companies to go international. However, desired profitability from going international often differs from the actual results. Especially this gap increases in case company does not have an experience. (Tsirkunov 2013, 3.) Another major reason is managerial desire. It is totally based on the need for general management to make activities of the company more global and to be a part of international company. They are also keen on having continuous growth and market expansion. The decision concerning international expansion of the company in SME is made by General Manager while in bigger companies these kinds of decisions are done after a research and an agreement of the shareholders. The third motive for internationalization is having some special technological competence or unique product. In case a company can provide unique services or products that are not widely available from international competitors, the company will definitely achieve strong competitive advantage and a major success abroad. A company should however be aware of the time span that a product will remain unique. In the past it may have taken from five to ten years, but nowadays technological progress is growing so fast that it takes only months or even weeks for more advanced product to be introduced to the market. (Tsirkunov 2013, 4.)

The fourth reason is possible market opportunities located in foreign country. In case there is an open niche for company to take and the company has the needed resources and capabilities, then it might result in a successful internationalization act. Every now and then, developing markets are growing incredible fast providing interesting opportunities for companies that are ready to expand their operations into foreign market. The Russian market is also one of rapidly growing and developing ones to some extent. The fifth reason is Economies of Scale, which means that by becoming a part of global markets enables company to increase their output and therefore reduce costs per unit. (Tsirkunov 2013, 4.)

According to Czinkota (2004) exclusive market information that is not widely known may motivate companies to go international. Exclusive market information includes knowledge about market places and situations as well as foreign customers. The knowledge can be received by using special contacts or conducting a research. The information advantage will probably not last long, until competitors will catch up. The sixth factor that motivates some companies are tax benefits. Some countries want to encourage their companies into export activities by offering them tax concessions. (Czinkota 2004, 5.)

3.1.2 Reactive reasons

The most common reactive reason for expanding business operations into foreign market is high saturation in local markets. The product that company is producing and selling locally is produced by several other companies as well. It leads to high competition in the area and therefore decreases the profits. Usually companies are dissatisfied with declining profits. It increases the willingness to go international and with proper execution of internationalization process, company might increase their market share and profits. Another reactive reason is willingness to extend the product life cycle by launching product in a new market. Target market should be developing fast and to have high customer base that is unfamiliar with a product. (Tsirkunov 2013, 5.)

The third reason is having overproduction meaning a situation in which a company is producing more than it can sell locally. Exporting might be performed by setting the price of the product lower than new market's average price, known as dumping. This might result in huge fines since WTO is controlling any dumping activities. Another way to get rid of any excess production is to transfer it to emerging markets where demand is very high. The fourth reason to expand business operations into foreign market is competition in the local market. The best way to avoid this competition is to go into new, open market in which competition is not that high and price elasticity is lower. A seasonal fluctuation of product demand is one of the reactive reasons. Some products have high demand during summer, while other during winter. (Tsirkunov 2013, 5.) A final major reactive factor is physical closeness of foreign customers and ports (Czinkota 2004, 7).

3.2 Entry strategies

There are many different ways in which a company can enter a foreign market. While one strategy is suitable to some foreign market, the same strategy may not be suitable to some other foreign market. There are a number of factors that influence how to choose the strategy, such as tariff rates, the degree of adaptation of your product required, marketing and transportation costs. The following strategies are the most commonly used options. (Tradestart n.d.)

3.2.1 Export

Export means selling goods in foreign markets to earn profits. There are two types of exporting – direct and indirect. Direct exporting is selling product directly to a customer located in foreign country. Customer might be a retailer, an agent or an ordinary customer. Indirect exporting is selling the product in your home country to a buyer, who will later export it abroad. (Tsirkunov 2013, 7.) In indirect exporting the exporting function is outsourced to other parties. Those parties may then prepare the documentation required, take responsibility for the physical distribution of the products and arrange the sales and distribution channels in the foreign market. (Tulinen 2007, 32.)

Exporting is the oldest and the most common way in which a company begins internationalization (Tulinen 2007, 29). People choose to internationalize their company through exporting for many reasons. First of all, it is the least risky way to expand into foreign market. The importer is the party that mainly takes the biggest risk. Secondly, exporting can be a way of trying a new market for the product that is already popular in the domestic market. By exporting you will see if there is a demand for your product and in case there is, you can possibly open there a new business branch. The third reason to choose exporting is increasing the product life cycle. (Tsirkunov 2013, 7.) By expanding the business operations with exporting helps the company to achieve larger customer base. Company can then produce more products and it will increase the benefits from economies of scale. (Tsirkunov 2013, 8.)

As some many other things that have advantages, exporting has also its disadvantages. First of all, exporting can be costly. Those costs include traveling costs, management fees, shipping

and agent fees. To cover all the costs, company has to pay them from the profits received from exported products. Second reason is that exporting demands good understanding of laws and regulations. They vary from country to country and can change very fast. All of this makes it difficult for you to sell your product. Thirdly, transportation policies can cause some disadvantages for you. Rules and regulations related to shipping are usually very complex. Fourth disadvantage can be caused by difference in currency. In case company is exporting to a country with different currency it may earn less profit than expected. On the other hand, if your currency is very strong compared to the currency in the country of destination, the product can be perceived as more expensive and thus it will decrease the demand. Moreover, there can be some manipulation with the currency in some countries, which may cause loss for your business. All in all, exporting is the safest way for a company to expand their operations into foreign market. (Tsirkunov 2013, 8.)

3.2.2 Licensing and franchising

Licensing is an arrangement in which one company allows other company to use their trademarks, patents, unique designs or special business secrets. The company that uses the license is called licensee and it will pay for use of the license. The licensee is obliged to follow strict rules within licensing contract. Licensing can help small companies to become better known internationally. The brand will grow without any actual investments. Licensing can be set up in days or maybe weeks. (Tsirkunov 2013, 7.)

Franchising is much like licensing, with only difference that the franchisor allows using their operating systems as well. In addition to standard package of trademarks, patents, designs and business secrets, the company that bought a franchise is using distribution systems and marketing campaigns as well. The company that buys a franchise often has to pay an upfront fee and monthly or annual fee. Franchising is a good way to expand business operation since it can help small companies to grow without investing into any international plants. While licensing can be set up in short period of time, franchising requires standardized operating system, marketing and internal operations to be prepared. In order to sell their franchise, franchisor has to apply for a franchising license. (Tsirkunov 2013, 7.)

Franchising as a business model is quite a new phenomenon in Russia since it came to the country only in the early 1990s. Most of the first foreign franchises were American and Italian

restaurant chains. The Russian Civil Code adopted franchise legislation in 1994. Franchising is defined as a “commercial concession.” The number of franchise operations has steadily grown. While most of the franchises operating in the market during the first decade were foreign, a number of Russian retailers, restaurant as well as drugstore chains started to expand by using the franchise model. Nowadays there are more Russian organizations than foreign franchise organizations. Some companies are registered under other legal forms, such as through sales contracts or licensing agreements. This situation makes it is difficult to estimate the total number of franchises working in Russia. The companies using franchising business model are operating mainly in the restaurant and fast food, retail, and other consumer-service areas. (U.S. Department of Commerce 2012, 12.)

There are many cities with more than million inhabitants that can provide excellent opportunities for business expansion. However most franchisers choose to establish partnerships with franchisees in Moscow or St. Petersburg. Several well-known franchises have successfully entered the Russian market. Among the most popular brands are: AlphaGraphics, Candy Bouquet, Chips Away, Domino’s Pizza, Gold’s Gym, KFC, LMI Consulting, Century 21, Office 1 Superstore, Papa John’s, Pizza Hut, Pizza di Roma, Subway and Starbucks. There are still some important parts missing in Russian franchising legislation, but local franchising entrepreneurs and the Russian Franchise Association, which was formed in 1997, are working to create a more favourable legal and business environment for the expansion of franchising in Russia. They also aim to support and protect the interests of its members. (U.S. Department of Commerce 2012, 12.)

According to the Russian Civil Code amendments as of January 1, 2008, the franchising agreement includes the rights to use a trademark and service mark as well as any other objects of exclusive rights (U.S. Department of Commerce 2012, 12-13). A franchising agreement has to be completed in written form and registered with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) to be valid. The Buy Brand International Franchise Exhibition is held annually in Moscow in September. The exhibition gives an opportunity to become acquainted with the market and to make new contacts. (U.S. Department of Commerce 2012, 13.)

3.2.3 Strategic alliance

Strategic alliance means an agreement that is being done by two or more companies to cooperate in an activity. Companies work together only for certain activities, while other operations of the company are left unattached. The main object of a strategic alliance is to use expertise of each company to complement each other and work together for the same goal. Strategic alliance is a good and quick way to get access to the new market. Partner-company has a lot of experience and knowledge about their home market that they will share with their strategic partner. This will increase sales and give both companies a possibility to gain new skills. Strategic alliance has its advantages and disadvantages. First of all, companies within the strategic alliance share fixed costs and resources, as well as increasing profits and financial possibilities. Second advantage is that the companies will get new connections, meaning they will have more options of distribution channels. Thirdly they might get new international business contacts as well as political contacts that will ease their business to operate. With a strategic alliance companies might gain international recognition. (Tsirkunov 2013, 8.)

One of the disadvantages that occur in strategic alliance is that company will have less managerial power of the business. In case there are two companies in strategic alliance, usually one of them has higher involvement compared to other. The cultural differences and different management styles may cause communication problems and difficulties to keep objectives on targets. Thirdly, because of a strategic alliance, companies will lose control over quality, employees and operating costs. Fourth disadvantage is related to possible political and economic instability in the home country of you partner company. According to Tsirkunov, strategic alliance is a good way of joining international market. Nonetheless, company should take this action very seriously, or they might get huge losses. (Tsirkunov 2013, 9.)

3.2.4 Joint venture

A joint venture is when two companies come together and work on the same project together. Main difference between Strategic alliance and Joint venture is that in Joint venture companies are investing same amount of funds, time and effort to be successful in that certain project. Usually joint ventures are small or medium-sized projects. Large companies use this method

in order to diversify and also feel safe when having a project which needs high level of investment. With joint venture a company can achieve a rapid and short-term growth on foreign markets. The companies have also a possibility to build-up their market power in a new location. Secondly both companies can transfer knowledge and technology for each other, resulting in a better performed project. Third advantage is that since joint venture project tend to have high return on investment funds, they could be used for a new, even bigger project. Since both parties invest equally into the project, the risk is also lower compared to solo-performed project. (Tsirkunov 2013, 9.)

Nevertheless, there are still risks. In case project fails, invested funds are gone. Second disadvantage is that at the beginning companies may receive short term losses since investments are only starting to work. As any international activity joint venture comes with cross-cultural differences. They may result in misunderstanding, conflicts and ethical difficulties. Some actions are perceived as unethical in one culture and normal on other. (Tsirkunov 2013, 10)

Foreign companies may establish a joint venture (JV) with a Russian partner by taking an equity position in Russian Joint Stock Company. Establishing a joint venture in Russia demands cautious planning and long-term commitment. Usually it is recommended to retain managerial and voting control because foreign minority shareholders may face serious difficulty in protecting their interests in Russian courts. One of the advantages of a joint venture is that it helps foreign company to gain trust among local people, since many still view foreigners with suspicion. 42 industry sectors in Russia require government's pre-approval of a foreign firm's purchase of controlling interest. Additionally, some foreign investments operating in key sectors or for large-scale procurements such as the oil industry may be required to source 70% of their goods and services from Russian providers. (U.S. Department of Commerce 2012, 13.)

3.3 Public support and service organizations

The Ministry of Employment and the Economy assist companies with the internationalization into the Russian market. The internationalization services will be targeted strongly to so-called market deficiencies including information services, SMEs, support at the beginning of internationalization, political influence and country image. The role of the state is gradually reduced from services that are produced also by private funds. Deficiencies in the financial and service

structures are covered in the local level. The Kainuu region is encouraging small and medium-sized enterprises to seek growth through internationalization and strengthen international operation in the Russian market with the help of public funding and services. (Kainuun liitto 2014, 33.)

This chapter introduces the most common organizations offering support and services in Finland. Finnish companies have the possibility to apply for different kinds of supports offered by government of Finland or the European Union. The provided support is mainly financial funding or business consulting (Huttu & Sirkku 2014, 28).

3.3.1 ELY Centres

ELY Centres help SMEs to start the planned internationalization and to expand its international operation. Companies can use the services provided by the ELY Centres, as well as national networks of export promotion and internationalization. The services offered by ELY Centre are assessment of export capacity, guidance in drawing the internationalization plan, consulting about export and internationalization, as well as developing internationalization ability of companies and their staff. ELY Centres also provide financial advice and support, create export cooperation networks between companies as well as guide companies to other sources of information and services of cooperation partners. In addition to assistance by the own experts ELY Centres provide Finpro's services for companies. Companies can also receive services from private experts specialized in certain area of the internationalization, specific industry or market area. (ELY Centre 2013.)

3.3.2 Tekes

Preparation of international business requires understanding of the target market. Tekes finances projects in which company attempt to evaluate the capabilities to a rapid international growth, to increase their understanding of the market and to ensure that it has suitable team for international growth. Tekes may, for example, give funding for testing a new concept and a product on potential customers. Funding can be used for developing a marketing strategy as

well as for studies related to intellectual property rights and their protection. To receive funding from Tekes, the company must have credible capability to start international business. Tekes grants funding only for small and medium-sized enterprises for planning international expansion. Small and younger than six years old company can receive even 75 % of the total project costs; where as other SME can receive funding for 50 % of their project costs. (Tekes n.d.)

3.3.3 Finpro

Finpro Association was founded in 1919 by Finnish companies. The object was to advance internationalization of Finnish companies and to improve their competitiveness. (Finpro 2013.) Nowadays Finpro is the national trade, internationalization and investment development organization in Finland. They support their clients' international growth and success by helping them to be in the right markets at the right time with a competitive concept. (Finpro 2014.) Finpro networking benefits both locally and globally their clients and partners. There are several major national projects running, such as Cleantech Finland, Future Learning Finland and FinlandCare. (Finpro 2014.)

Finpro has about 550 members including Finnish companies, the Confederation of Finnish Industries, the Federation of Finnish Enterprises and the Federation of Finnish Technology Industries. Finpro is a public-private organization that works closely with part of the Ministry of Employment and the Economy Group, as well as with ELY Centres, Tekes and the Ministry for Foreign Affairs. Finpro has 270 professionals working in 69 offices in almost 50 countries. (Finpro 2014.) In a nutshell, Finpro's primary mission is to develop the know-how related to international business and economy as well as to support companies in their internationalization efforts and export activities. (Finpro 2013.)

3.3.4 The Regional Council of Kainuu

The Regional Council of Kainuu is a regional development authority in the Kainuu region. It is responsible for the overall development of the region and promotes the implementation of plans as well as carries out planning and execution of EU programme in accordance to law of

financial and structural funds. (Kainuun liitto 2012.) The role of the Regional Council of Kainuu in cross-border cooperation with Russia has been well-established for years and has strengthened all the while. The new Cross-border cooperation Programme (2014 - 2020) has just begun but the programme preparation is still in progress. (Kainuun liitto 2014, 9.)

The Regional Council of Kainuu also supports the local entrepreneurs by acting as an intermediary authority for granting funds of regional development, funds from the European Regional Development Fund (ERDF) and their equivalent national funds (Kainuun liitto 2015b). ERDF finances projects that support entrepreneurship, research and development activities, innovation as well as regional skills structures. There are few key areas on which ERDF concentrates to support. First key area is business development including measures to support development of start-ups, growth and competitive enterprises. It also supports efforts to network and enter international markets. The second key area is the promotion of competence and innovation. It also supports the strengthening of the related structures and centres of expertise. (Ministry of Employment and the Economy 2015.)

3.3.5 Kainuun Etu Ltd.

Kainuun Etu Ltd. is a regional development company owned by the municipalities of the Kainuu Region. The objective of the company is to support all the sectors of the economic life in the Kainuu region. Kainuun Etu also helps the key sector companies to develop their know-how in business operation, competitiveness, growth and cooperation. Kainuun Etu operates both in national and international level on technology industry, experience production and food industry, wood sector, stone and mining sector, international projects as well as Foreign Direct Investment (FDI) and Information Technology (IT) services. (Kainuun Etu. n.d.) The main activities include project design preparations, searching different possibilities for funding and applying for funding, recruitment of capable employees and project management. Kainuun Etu Ltd. is also responsible for activities concerning invest in Kainuu. (European Commission. 2015.)

3.4 Challenges related to foreign trade

In addition to encouragements and services there are also many challenges related to international trade. Trade barrier imposed by government is one of the challenges that companies have to overcome in order to execute international trade. Cultural differences and other kind of restrictions may cause obstacles to trade as well, but they do not fall under the definition of trade barrier. Almost every country in question has their particular restrictions for foreign company when entering the market. The next two subchapters will discuss the most common trade barriers and restriction.

3.4.1 Trade barriers

A trade barrier is a restraint imposed by a government on the flow of international goods or services. The most common trade barrier is a tariff. It is a tax on imported goods. Tariffs raise the price of imported goods and make the domestic goods more favourable choice for consumer to buy. Another trade barrier is a subsidy to a certain domestic industry. Subsidies make those products cheaper to produce than in foreign markets. It leads to a lower domestic price. Both trade barriers tariffs as well as subsidies raise the price of foreign goods compared to domestic goods, which lead to declining the amount of import. (Library economics liberty 2010.)

A trade barrier can be related to a specific product or service that is being traded, for example technical requirements. International ground rules have been agreed in many areas. Those rules give limitations in which countries can regulate trade. In other words, some barriers are legal while others are illegal. It is also possible to help companies that have obstacles to trade, but those measures do not fall under the definition of trade barriers. It is normal prefigure that products are liable to customs duties when imported into foreign market. The products must come with correct documentation. In some cases, the customs duties may be extremely high or customs clearance may take a very long time. (Ministry of Foreign Affairs of Denmark n.d.)

In addition to customs duties and procedures, trade barriers may take many forms such as technical regulations, for the purpose of for example protection of consumer or environment.

Another form of trade is restrictions on access to primary products. It may mean for example export levies that drive up prices artificially or special export prices. Those prices are higher compared to the same primary products for use in national processing industries. There are also restrictions on access to investment. Those are being used for example through restrictions on access to repatriation of profits or national participation requirements. For some companies inadequate protection of intellectual property rights may become a trade barrier. It means for example a lack of protection of patents, copyrights, trademarks and geographical indications of origin. (Ministry of Foreign Affairs of Denmark n.d.)

Because of globalisation, trade restrictions have become increasingly important, but on the other, as a result of international trade liberalization, traditional trade obstacles such as tariffs and import restrictions have been diminished. As a result, other trade restrictions play more important role nowadays. These other trade restrictions are often based on qualitative matters such as product quality requirements and product packaging requirements. (Ministry of Foreign Affairs of Denmark n.d.) Efforts are being made all the time to improve the ground rules for international trade through negotiations in the World Trade Organization (WTO) and bilaterally between the EU and trading partners. (Ministry of Foreign Affairs of Denmark n.d.)

3.4.2 Trade restrictions that are not barriers

Examples of obstacles to trade that cannot be removed in the same way as a trade barrier are linguistic and cultural differences. Also getting the contact with the market and the collection of market information can be challenges that an exporter must overcome in order to succeed in foreign market. (Ministry of Foreign Affairs of Denmark n.d.) Other trade restrictions may be caused by the history and political situation of the country (Wojciechowski 2013, 32). For some companies geographical specifics of a country may become a trade restriction. The more difficult it is to transport the products to their destination, the more one has to pay for it. (Wojciechowski 2013, 31.)

All in all, there are many country and area specific challenges that company has to face with when conducting international trade. Next chapter examines Russia as a target market. The challenges related to trade with Russia will be discussed as well.

4 RUSSIA AS A TARGET MARKET

This chapter will discuss Russia as a target market by starting first with a PESTEL analysis of the country. It will also examine the importance of Russia for the Finnish economy, the possibilities to expand business operation from the Kainuu region into Russia and challenges related to it. The last subchapter will discuss the Ukrainian crisis and its impact on economy and Finnish company.

4.1 PESTEL analysis

A PESTEL analysis is a framework used by marketing specialists to analyse the external marketing environment and factors that affect on an organisation or an enterprise. The letters in PESTEL stand for Political, Economic, Social, Technological, Environmental and Legal. (Professional Academy n.d.)

There are some trends in the Russian **political environment** these days. The political situation has been stabilizing and becoming more predictable during the past few years, even though there have been some political scandals with high international publicity. Business life is strongly affected by the government. The instability and high level of bureaucracy as well as corruption in political institutions are still very common. (Klykovskaia 2013, 17.)

Russia's **economy** has taken economic downturn with real GDP growth slowing from 3.4 percent of 2012 to an estimated 1.3 percent in 2013. The lack of structural reforms has led to the decrease in confidence of businesses and consumers. Recent events related the Crimea crisis have associated with the persistent confidence problem into a confidence crisis. The low-risk scenario expects a limited and short-term impact of the Crimea crisis leading the growth to slow down to 1.1 percent in 2014 and picking up to 1.3 percent in 2015. According to the high-risk scenario economic and investment activities will meet a more severe shock in case the geopolitical situation gets worse. It assumes a contraction in output of 1.8 percent for 2014. (The World Bank 2014.)

The **sociocultural environment** causes problems for Finnish companies especially for those that are just beginning their operations in Russia. The operation modes and management culture differ as well. In case the firms are not aware of these differences, problems might occur. The behaviour in bigger cities, such as St. Petersburg and Moscow, is constantly changing towards the western style however; Russia will hardly ever be entirely like a western country. The language skills of the Russians have improved and the know-how is also generally on a good level. Russians are most often clever negotiators. They present their ideas with polite words. (Tulinen 2007, 57.)

The information **technology** in Russia is partly ahead compared to the situation in Finland. Most of the hackers and viruses come from Russia. The difference between bigger cities and rural area is enormous. For example the Internet connections are not so fast outside the bigger cities and it is rather expensive as well. There are a lot of highly skilled people in Russia but on the other hand there are also many non-skilled people. The same goes for companies as well. There are enterprises with the newest technological devices and enterprises with machines that were in usage during the Soviet Union. These differences are mainly found between the cities and the countryside. (Tulinen 2007, 58.)

During the Soviet Union **ecological issues** were not considered important, so the poor condition of the nature and the lack of respect to ecological matters are still prevailing in Russia. When there has been a lack of money, ecological and ethical issues have been forgotten. The people have been forced to concentrate on satisfying their basic needs of staying alive. According to Mrs. Tulinen, the ecological awareness is just now beginning to develop in Russia. As ecological thinking is spreading, the ecological regulations drive the companies to certain solutions. There could be a business opportunity for Finnish firms to offer and sell those solutions for Russian companies. (Tulinen 2007, 59.)

The Russian **legislation** is changing continuously and it is vital for foreign companies to keep up with these changes. However, the Russian government aims to bring the law closer to the international norms. The general principles of the international law are part of the Russian legal system. Nonetheless in the local level there are still problems with the legislation and its implementation. In 2012 Russia joined the WTO, which gave hope to foreign investors. It is expected that in the future the Russia WTO membership will low down the tariffs of imported good. It would lead to more simplified procedures for exporting goods produced in Russia. It may also change to the quotas for foreign participation in the insurance sector. All in all, WTO

membership should protect foreign companies from protectionist measures by guaranteeing more transparency and predictability on trade issues. (Klykovskaia 2013, 20-21.)

4.2 The importance of Russia for the economy of Finland

Russia had been the largest trading partner of Finland since 2007. In the beginning of 2014 Germany overtook Russia as the largest trading partner of Finland. Russia was still the largest import partner with 18.1 per cent in 2013. Germany's share of imports was 12.6 per cent and on the third place was Sweden with the share of 11.4 per cent. The largest export partner of Finland in 2013 was Sweden with the share of 11.6%. Germany was in the second place 9.7% followed by Russia 9.6%. (Talouselämä 2014.)

Finnish exports to Russia fell in the beginning of 2014 by 16 per cent compared to the same period of time of a year earlier. Imports fell even more by 18 per cent. Exports to Russia began to decrease in the fall 2013, after three years of growth. In 2013 exports to Russia amounted to six per cent of total exports and reached a value of almost EUR 5.4 billion. Imports fell by only one percent to a value of almost EUR 10.5 billion. In 2013 Russia's trade deficit was almost 5.2 billion euros. It had increased from 2012 when the deficit was almost € 4.9 billion. From January to March 2014, the deficit has accumulated nearly 1.3 billion euros. Russia has been Finland's largest deficit country in the last five years. (Talouselämä 2014.)

The amount of exported machinery and equipment, as well as the products of chemical industry to Russia fell remarkable in 2013. The paper industry exports, however, increased in 2013, and their exports declined only slightly during the first quarter 2014. (Talouselämä 2014.) The main categories of exported goods to Russia in 2014 were chemicals and chemical products as well as motors and machinery for specialized industries. Transport equipment was the only category of which export increased from 2013 to 2014. (Finnish customs 2015, 42.) The main categories of the exported products, their share and change from previous year are presented in the next diagram (Figure 5).

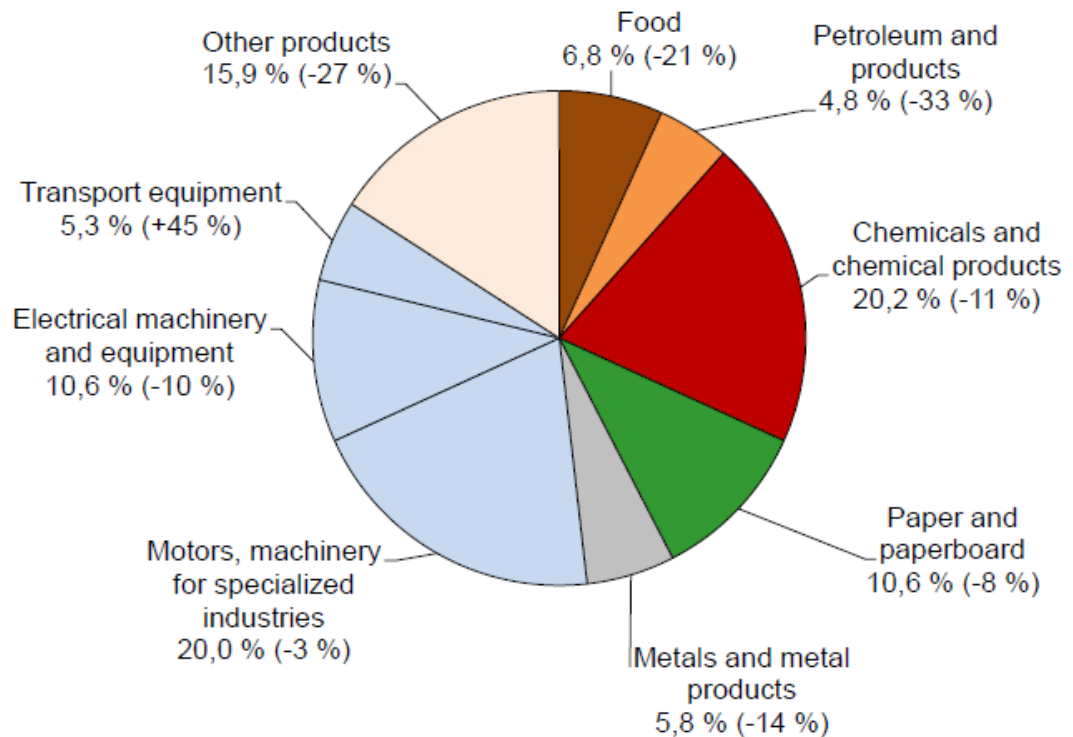


Figure 5. Exports to Russia by products in 2014 (Finnish customs 2015, 42.)

Import of many important categories of goods from Russia started to decrease in 2013, and continued to fall in early 2014. The energy sector, the value of imports fell only slightly in 2013, but continued with a rapid decline, mainly due to the decline in oil imports. Timber imports increased in 2013, but started to decrease in the beginning of 2014. (Talouselämä 2014.) The biggest category of imported product from Russia in 2014 was petroleum and products. Import of all the categories, except chemicals and chemical products decreased during 2014. (Finnish customs 2015, 43.) The main categories of the imported products from Russia, their share and change from previous year are presented in the next diagram (Figure 6.).

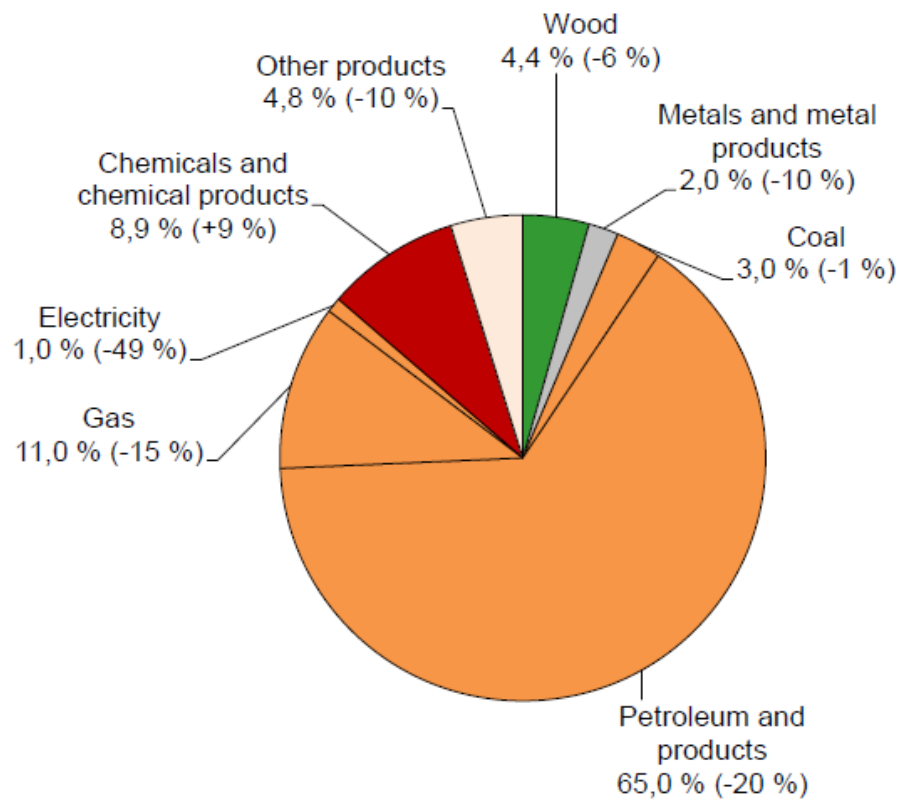


Figure 6. Imports from Russia to Finland by products in 2014 (Finnish customs 2015, 43.)

More than a quarter of Finnish export companies were involved in exporting to Russia in 2005. That makes Russia an important export market for Finnish companies. (Ollus & Simola 2006, 29-30.) Almost 50 percent of large Finnish export companies exported to the Russian markets. The corresponding share for small and medium-sized enterprises (SMEs) was around 25 percent. All in all SMEs have had an important role in Finnish exports to Russia. In 2005, the number of companies exporting to Russia was 3,700 from which the share of SMEs was more than 80%. SMEs accounted for 17% from the total value of Finnish exports to Russia. The share of SMEs was bigger in terms of the number of companies, but a bit lower in the value of exports when compared to the total exports of Finland. This is because medium-sized enterprises play more active role relative to total exports. (Ollus & Simola 2006, 30.)

Another reason is that in exports to Russia, the average value of the exports of the smallest companies was higher relative to total exports. SMEs play the most important role in the sectors of machine and equipment manufacturing, chemical industry and metal industry, accounting for about thirty percent of the exports to Russia of those sectors. The smallest shares

SMEs had in the electronics industry and in the foodstuff industry. In the machine and equipment manufacturing the value of exports of SMEs was highest. That was also one sector in which the exports of SMEs grew fastest. (Ollus & Simola 2006, 30.) In the chemical and metal industries exports of all SMEs grew quit modestly. The Russian market was most important for SMEs operating in the wholesale and retail trade sector. Around thirty percent of the exports in that sector were destined for Russia. (Ollus & Simola 2006, 31.)

4.3 Possibilities that the Russian market offers for the Kainuu region

According to Ministry of Employment and the Economy, the density of small businesses as well as exporting companies in Finland is the smallest in the Kainuu region. (Kainuun liitto 2014, 32). The current financial instruments are often seen as inadequate or they do not meet the needs of businesses, or it is too complicated to take advantage of them. During the EU programme period 2014 - 2020 the resources available continue to decline, and choices have to be made in regional level in areas, such as cloud services / digitization including the game industry, technology, mining, and tourism. (Kainuun liitto 2014, 34.)

Cooperation of different types of actors in launching and implementing individual projects is essential. Public organizations do not only provide services but act as a partner in networking businesses, and to provide support with interesting initiatives generated by the private sector. Companies especially operating in the tourism sector should take part in export projects and exhibitions. The globalization means that companies are seeking for countries of low-cost in production and labor. The area around Kostomuksha, meets those criteria. It could become a natural stepping stone for SMEs operating in Kainuu to expand their operations into the Russian market. The near-border location of businesses will increase the well-being on both sides of the border. (Kainuun liitto 2014, 34.)

However, companies in the Kainuu region are too small to operate alone in major cities in Russia. In case a company is interested in going to the Russian market, it has to be done with other companies in order to provide total solutions or another option is to join in subcontractor networks. Such fields of industry could be construction projects, energy and environmental projects. There is need for cooperation with other companies operating in the region and need for support activities from organizations. A reliable network of cooperation and personal relations are crucial for the success. (Kainuun liitto 2014, 34.)

In Kainuu there are only a few production companies that are having direct exporting to Russia. The interest towards Russia is growing. More and more companies are seeing near regions of Russia as possible areas of subcontracting and industrial production in the emerging markets. This sort of support projects have been launched by Kainuun Etu for example studies related to possible subcontracting and production with metal- and woodworking companies in the region. (Kainuun liitto 2014, 35.)

In Kostomuksha there is a construction boom, in which companies operating in Kainuu should participate. Even small construction companies could offer their services that are competitive and appropriate in size related to company resources. Growing export sectors include machinery and equipment trade, food products, consumables, health care technology, pharmaceuticals, energy conservation, clean technology, waste management, industrial automation and services. Other growing export sectors are subcontracting and value-added chains that are missing from Russia, the international consulting and accounting tenancy as well as machinery and equipment. Finnish food is highly appreciated near regions of Russia and the demand will increase since Finnish food has qualitative reputation. People are especially interested in special food products such as functional products, special diets and sports nutrition. All in all there is demand for products that do not yet exist in the Russian market for example clothing for extreme cold conditions. (Kainuun liitto 2014, 35.)

4.4 Challenges related to Russian business

According to surveys conducted by the Foreign Ministry of Finland and the Finnish-Russian Chamber of Commerce, Finnish companies have repeatedly faced many barriers to trade when operating in the Russian markets. The problems are various and occur in all sectors that conduct exporting or importing activity with Russia. The surveys bring to the light the three main areas in which Finnish companies have the most severe problems. (Ollus & Simola 2006, 33.)

First area is the customs procedures. Finnish companies have perceived customs procedures one of the most troublesome features in trade with Russia. Finnish companies have complained the Russian border to be slow, inconsistent and unpredictable. Companies have had problems with such things as occurrence of obscure and unexpected changes in the documentation needed for customs clearance. Another area of problems is related to customs as well. It is the high customs tariffs. Companies especially those that operate in fields of construction

and furnishing, textiles industry, chemical industry, forest industry, as well as machinery and equipment manufacturing considered high tariffs as troublesome in their trade with Russia. Third impediment in trade with Russia is the technical barriers. The Russian certificate standards are different compared to the international standards. Finnish companies have found it expensive and difficult to get the needed certificates. (Ollus & Simola 2006, 33.) The sectors that were the most troubled by certification difficulties were metal and electronics industry as well as manufacturing of machinery and equipment. Despite the difficulties, the Russian market is still attractive in the eyes of Finnish companies. They are willing to participate in the markets because of the rapid economic growth, increasing purchasing power and the vast number of consumers. (Ollus & Simola 2006, 34.)

4.5 The Ukrainian crisis

The Ukrainian crisis began as an internal crisis in November 2013 when Ukrainian President Viktor Yanukovich rejected a deal for further integration with the European Union. It sparked anti-government protests among Pro-EU people. The protests led to the situation in which Mr. Yanukovich was run out of the country in February 2013. After that Russia occupied Crimea in March and pro-Russia separatist started their rebels in eastern Ukraine. (Vox Media 2014.) Ukraine and Western governments have accused Russia of supplying heavy weapons and volunteers to the pro-Russian rebels in the Eastern Ukraine. Russia has denied supplying such weapons to the rebels. It has also condemned Kiev's military offensive in the particular area. (BBC 2014b.) Western countries have imposed sanctions and restriction on Russian individuals and businesses in response to Russia's involvement with the Ukrainian crisis (BBC 2014a). Russia has hit back by imposing sanctions against the Western countries (RT 2014). The whole series of events that have taken place in Ukraine and Crimea have brought the relationship between Russia and the West to its lowest point since the Cold War (Vox Media 2014).

4.5.1 The impact on the economy

According to former Finance Minister of Finland Mr. Antti Rinne, there will be an impact of the economic sanctions imposed on Russia for Finland but the actual scale of the consequences is yet unknown. (Finland Times 2014.) According to Mr. Reijo Heiskanen, chief economist of OP-Pohjola Group economic slowdown in Russia will affect to the Finnish economy through exports and the decreasing number of tourists coming from Russia. Slower export growth will have an effect on the domestic demand as well, meaning weaker growth in consumer and capital spending. Unemployment will probably slightly increase. All in all, the economic slowdown in Russia is expected to slow Finnish GDP growth by 0.7 percentage points in 2014. Mr. Heiskanen pointed out that the negative effect in 2015 will be only a tenth of a few percentage points. (Reuters 2014.)

According to Mr. Karl Sorri, the economy of Finland will suffer from effects of the Ukraine crisis. The situation in Ukraine is creating a volatile relationship between Russia and the West that will lead to the situation in which economy and security of Finland are suffering. Since Finland and Russia have 1,300-km long border between them, it is important for Finland to maintain a sustainable relationship with Russia. However, it is also vital for Finland to have strong ties with the rest of Europe and the European Union. In general, Finland has succeeded in keeping this balance incredible well. In the meanwhile, Finland is suffering from the disension between Russia and the West. The share of Finnish exports that goes to Russia is almost 10%. In addition to exports, Russian investment and tourism play an important role in the Finnish economy. Since the Ukrainian crisis has weakened the Russian economy and depreciated the ruble, it has had an immediate impact on the economic relations between Russia and Finland. (Sorri 2014.)

4.5.2 The impact on Finnish companies

The impact of the Ukrainian crisis on the Finnish companies operating in Russia is that they are no longer sure about their future revenue. Also the tourists coming from Russia to Finland are spending less money. Even Russian ownership in Finland is affected by West's targeted sanctions. The timing of the economic losses is particularly bad for Finland since the country is struggling to restructure its economy after the Eurozone crisis. The International Monetary

Fund (IMF) has already lowered its estimates of Finnish growth in 2014 to 0.3%. According to Mr. Sorri, increasing sanctions against Russia will be harmful for Finland in two ways. First of all, it will further obstruct bilateral economic relations with Russia. Secondly, it may spark revenge from Russia targeted at the EU. It is in Finland's best interest to find a peaceful resolution to the Ukrainian crisis as soon as possible. The long-term damage of the crisis is still unknown. In case the tension increases, it will jeopardize Finnish economic growth and security. (Sorri 2014.)

Russian President Mr. Vladimir Putin signed 6th August, 2014 a decree imposing a one-year ban on agricultural produce, foods, and raw materials from countries that have sanctioned Russia (RT 2014). In practice the ban includes fruit, vegetables, meat, fish, milk and dairy imports from the US, the European Union, Australia, Canada and Norway. According to Russian agriculture minister, Nikolai Fyodorov, Russia will import greater quantities of meat from Brazil and cheese from New Zealand to offset the newly prohibited items. The ban imposed by Russia comes in response to the grounding of the Dobrolet budget airline, which is a subsidiary of Aeroflot. The suspending of Dobrolet came as a result of EU sanctions over Moscow's support for rebels in Ukraine. According to Russian Prime Minister Mr. Dmitry Medvedev the Russian officials are considering a ban on European airlines flying to Asia over Siberia. (Rankin 2014.) According to an aviation expert Mr. Jyri Raivio, the ban for European airlines would be a complete disaster for Finnair since about 40 percent of company's turnover comes from the transit flights between Europe and Asia. (Luukka 2014.)

Finland may lose as much as 400 million euros as a result of Russia's retaliatory sanctions. According to Mr. Heikki Juutinen, the managing director at the Finnish Food and Drink Industries' Federation, sanctions would be "very bad news", since about 25 percent of Finland's exports go to Russia. The company that will probably suffer the most in Finland is Valio – Finland's biggest dairy producer. According to Finnish Prime Minister Alexander Stubb, the situation has the potential to become Economic Crisis 2.0. Stubb also made clear that in case the sanctions will hit Finland very badly; the burden had to be shared among EU members. (RT 2014)

5 RESEARCH METHOD

Chapter five will discuss the method used in this research. First it will explain the differences between quantitative and qualitative research methods. The second subchapter will give a review how the data for the research was gathered and the last subchapter will include a short description of the data analysis and quality assessment of the study.

5.1 Quantitative versus qualitative research

In a quantitative research the options have been determined beforehand and a large number of respondents are involved with the research. Whereas qualitative research is more subjective than quantitative research and it uses different methods of collecting information, usually individual, in-depth interviews and focus groups. The nature of qualitative research is open-ended and exploratory. Small numbers of people are interviewed and they are asked to respond to general questions. The interviewer explores the responses to identify and define people's perceptions and opinions about the topic. Basically, quantitative research is objective; qualitative is subjective. The decision of whether to choose a quantitative or a qualitative design depends on the nature of the project, the type of information needed, the context of the study and the availability of resources. Elements of both designs can be used together in mixed-method studies. (Anderson 2006.)

As the purpose of this study is to identify the specific and distinctive challenges that enterprises have when expanding their business operations into Russia, a mixed-method is being used. It means that elements of both qualitative and quantitative research methods will be used to receive as wide and deep overview of the situation as possible.

5.2 Data gathering

The data for the research was gathered through a questionnaire, which was drawn by using Digium Enterprise electronic query engine. The link to the questionnaire was sent by email to the target group. The target group of the survey consisted of companies operating in the

Kainuu region. The list of companies was collected with the help of Oulu Chamber of Commerce, Kainuun Etu Ltd and the Regional Council of Kainuu. The list includes mainly companies that have some experience in Russian business. To receive a wider view of the situation the questionnaire was also sent to companies that might possibly be interested in expanding their business operations into Russia. The main purpose was to find out what kind of experiences companies have from expanding their business operations into Russia, what kind of challenges they have had and what kind of support services they would like to have.

The survey was launched on 22 January 2015 and an invitation to fill in the questionnaire form was sent to 64 companies. The cover letter and its English translation can be accessed in the Appendix 1. After seven days five responses had arrived, from which one was sent by email. Two of the invitations were not delivered and one company had already ceased its operation. As the number of replies was quite modest, the response time was continued with one week and a reminder was sent to the companies. The reminder and its English translation can be accessed in the Appendix 2. By 6th February 20 responses had been received from which three were sent by email informing that they are not interested in Russian business. The response rate was 33, 87. The questionnaire consisted of 22 multiple-choice questions, four ranking questions based on five-point Likert scale system and 14 open ended questions in which the purpose was to gather as much information as possible about companies' attitudes, experiences and needs. The questionnaire and its English translation can be accessed in the Appendix 3.

5.3 Data analysis and quality assessment of the study

Since the mixed method is being used in the research, the data collected was analysed in multiple ways. The data collected through multiple-choice questions and ranking questions based on five-point Likert scale was analysed by using SPSS Statistics software. The data collected through open-ended questions was analysed by going through the replies question by question and categorizing similar opinions and thoughts. Since the sampling of the survey is quite small, the results cannot be considered valid, nor do they represent the general situation or attitude of all the companies operating in the Kainuu region. The results given by SPSS are only a reflection of the particular companies that took part in the survey and they cannot be generalized.

6 RESEARCH FINDINGS

This chapter will present the research findings. The analysis of the survey results will be approached by following through a variety of aspects including background of the respondents and the companies, the level of interest towards foreign markets in general, the current situation of Russian business, interest towards expansion of business operation into Russia, the challenges that companies have faced as well as support services they have used or would need. Frequencies of the survey results can be accessed at Appendix 4.

6.1 Background information about the companies

As mentioned earlier the questionnaire was sent to 64 companies and 20 of them responded, from which three responses arrived by email informing that the company is not interested in Russian trade. We analysed only those seventeen responses that came through Digium Enterprise electronic query engine. Among the respondents there were three sole traders, six managing directors and one deputy managing director, a head of office, a sales director, an export director and a project secretary. In addition to those job titles there were also two office workers and a work planner.

To receive some kind of conception what kind of companies replied to the survey, the respondents were asked to reply some questions related to their company's background. First question concerned business sector in which the company is operating. A list of priority areas identified in the Kainuu Regional program was given and the respondents had to choose the most suitable option. From those seventeen companies five were operating in the metal industry and six could not indicate their field of business from the given list. Those six companies were operating in such sectors as construction industry and retail (Figure 7.).

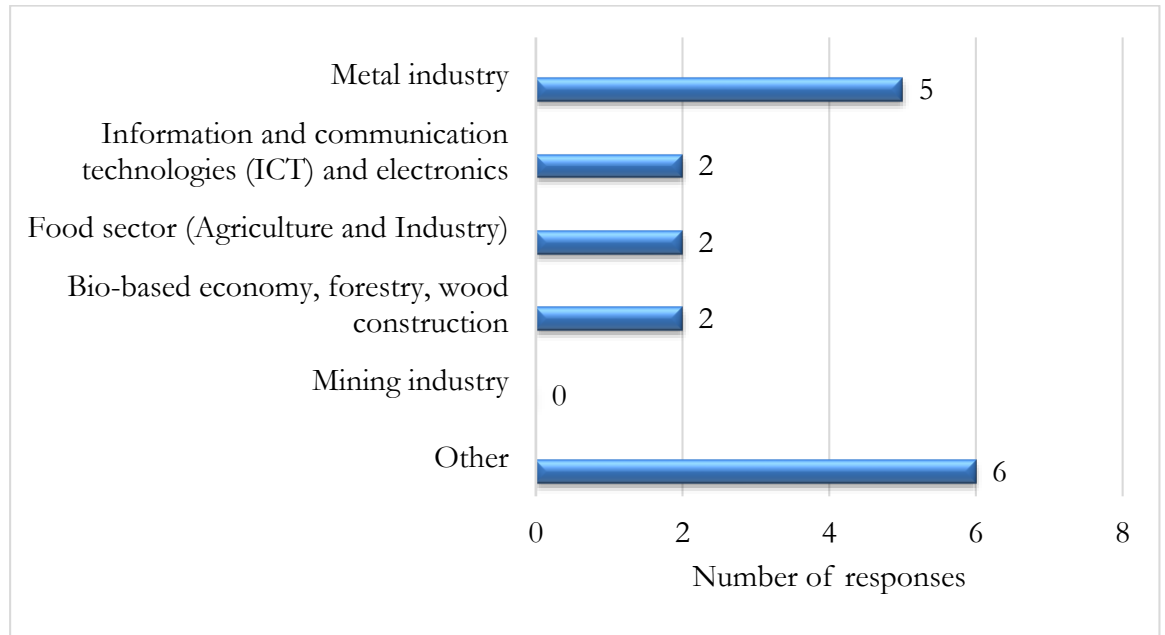


Figure 7. The business sector in which the company is operating (n=17)

Most of the companies participated in the survey were established either in 1980's or 2000's. The average age of the companies was 24 years. The oldest company has been operating for 56 years and the youngest company for four years. The operating form of most of the companies is Limited Liability Company. One of the respondents informed to work as a farmer (Figure 8.).

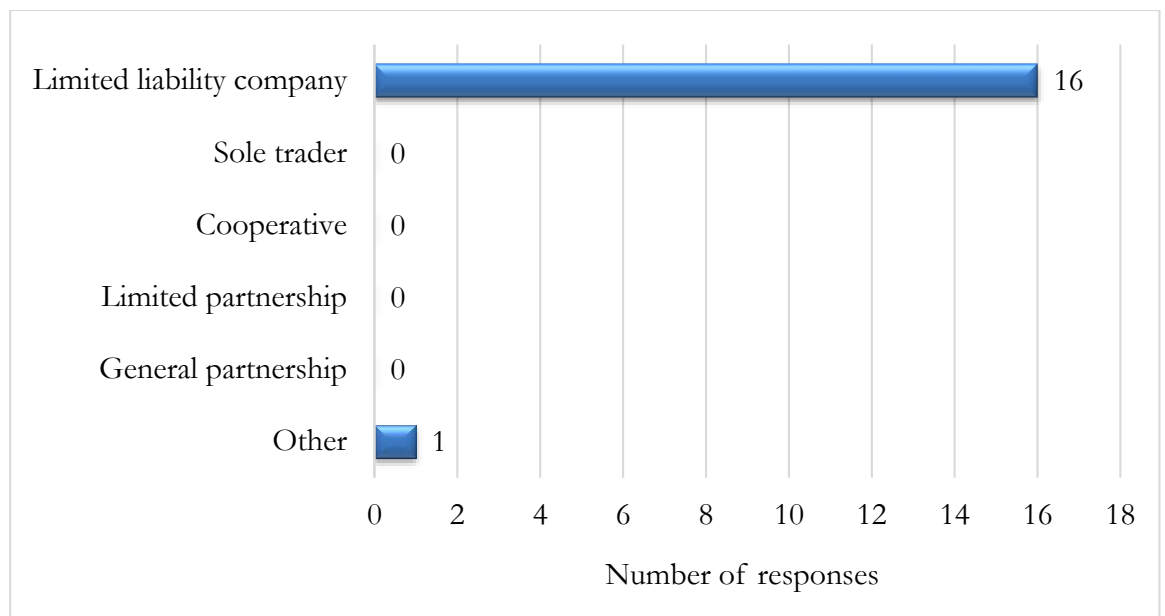


Figure 8. The business form of the company (n=17)

The next two questions were related to the size of the company measured by the number of employees and the amount of revenue in 2013. To the question concerning the number of employees the respondents were given seven categories from which to choose (Figure 9). Six companies chose the category in which the number of employees is between six and twenty. In 16 companies the number of employees was a maximum of fifty. Only one company informed having more than 150 employees.

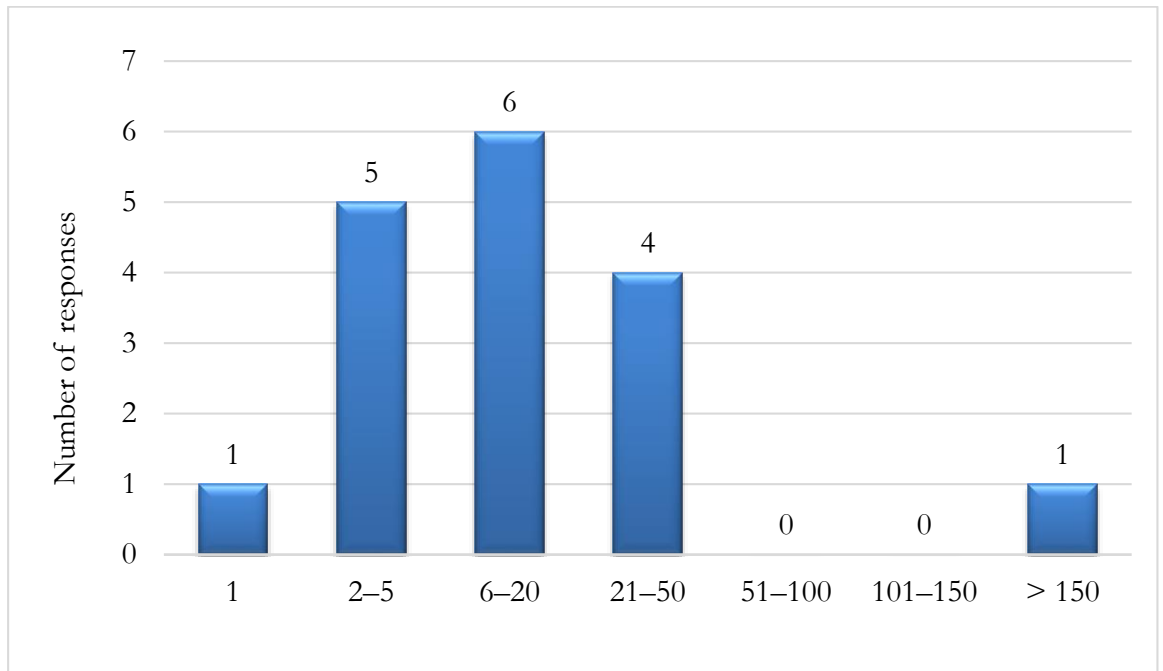


Figure 9. The number of employees (n=17)

The revenue in most of the companies in 2013 was between 1 million and 2 999 999 euros. In seven companies the revenue was between 100 000 and 499 999. Only one company informed that their revenue was more than 10 million euros in 2013 (Figure 10.). As a conclusion, the companies that took part in the survey were quite small, that is aligned with the general situation in Kainuu.

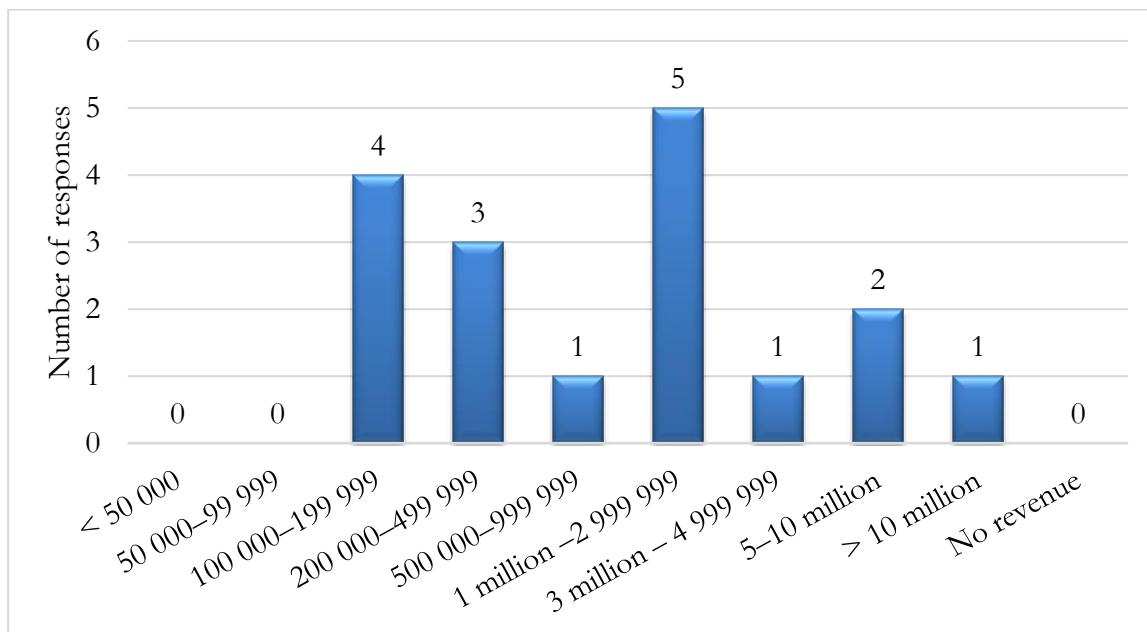


Figure 10. The revenue of the company in 2013 (n=17)

The definition given by the European commission for a company that has employees not more than 250 and revenue not more than 50 million euros is an SME (small or medium-sized enterprise). According to this definition all the enterprises participating in this survey were SMEs. Only one of them is defined as medium-sized enterprise and others are small or micro enterprises.

The next two questions were to find out whether the companies have any experience in foreign trade and do they have any interest in expanding their operations into foreign market. A considerable number of the companies had some experience in operating in foreign market (Figure 11.). Five of those were exporting their products or services abroad and six companies had both import and export activities.

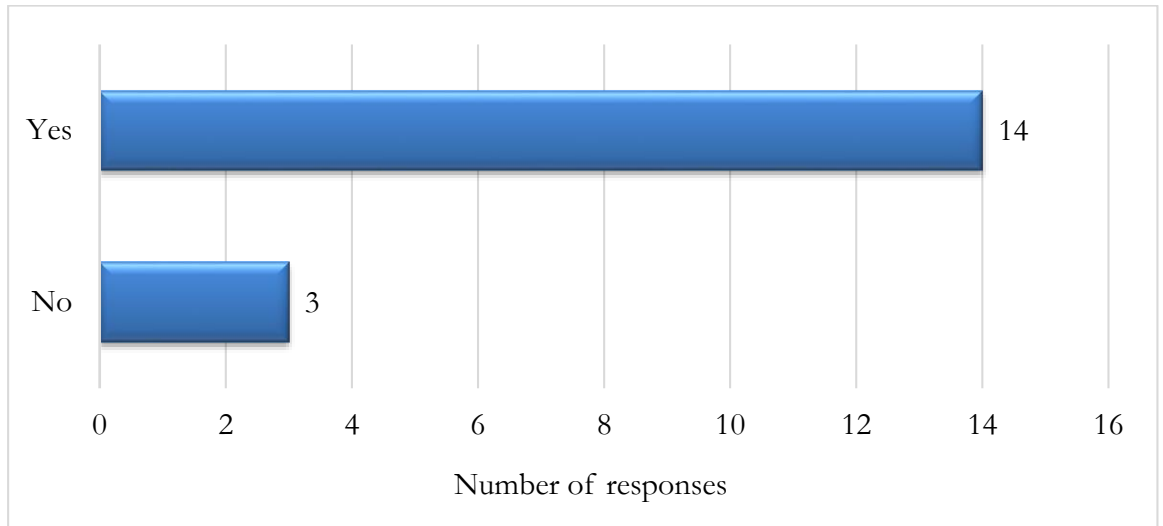


Figure 11. Companies that have experience in operating in foreign market (n=17)

Obviously companies participating in this survey are quite satisfied with their foreign trade since 14 out of 17 replied of having some experience in foreign trade and still 13 of the respondents were interested in starting foreign trade or expanding their existing business operations in foreign market (Figure 12). Most of them wanted to expand their business operations as soon as possible and others planned to do so during the next few years.

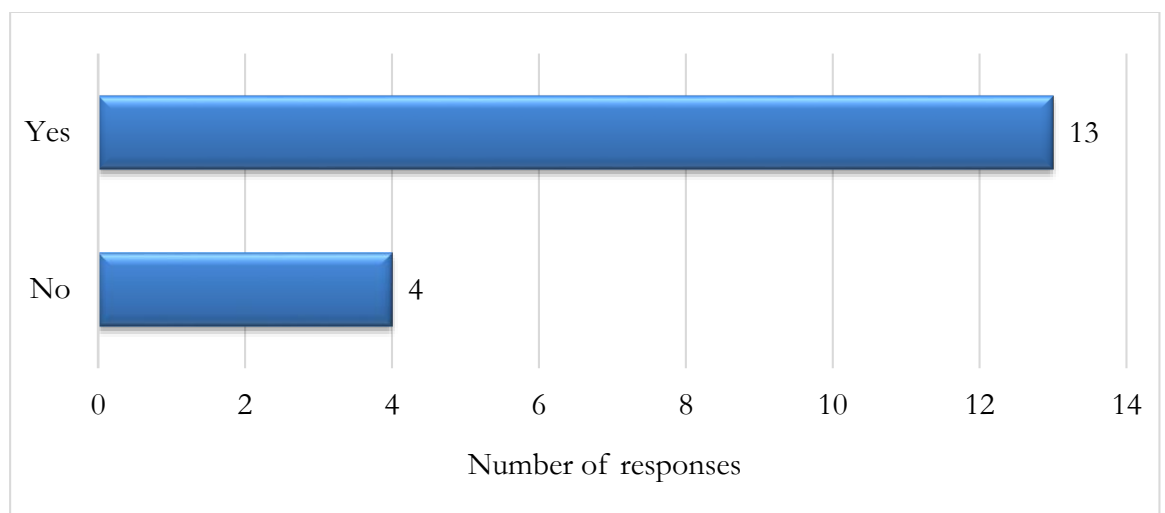


Figure 12. Companies that are interested in expanding their business operations into foreign market (n=17)

The correlation between experience in foreign trade and the willingness to expand business operations into foreign market was examined by using SPSS software. Most of the companies

with or without experience in foreign trade are interested in expanding their business operations internationally. The SPSS output concerning the correlation between above mentioned factors can be accessed at Appendix 5.

The respondents were asked to define their target market area for possible foreign trade. The companies were given options from which to choose and they were able to choose more than one option, so the total percentage of all the responses was more than one hundred. Among those companies the most favourable destinations were Russia and Scandinavian countries. Both of those options were chosen by ten respondents (Figure 13.). The reasons why companies were interested in those particular areas were their close location, market potential and the fact that there is need for the company's products or services. Those countries are also suitable destinations for exporting services. In addition to above mentioned reasons, companies were interested in Scandinavian countries because of their language skills as well as for their ability to understand the local culture and operating environment. There are also realistic conditions to establish exporting operation in Scandinavian countries. One company informed that their products have aroused interest in Norway and in Sweden and that is why the company is interested in expanding its operations into those countries. Russia is interesting destination for foreign trade for one company since the company has already exported equipment to Russia and installed them.

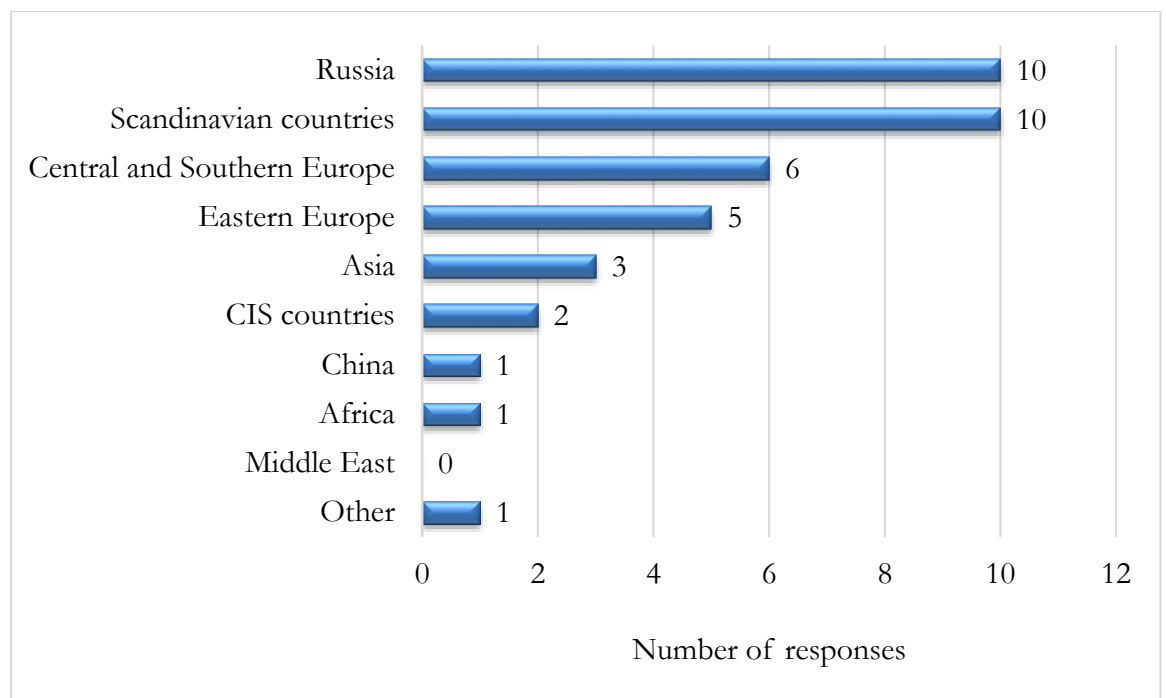


Figure 13. The most favourable destination to expand business operations (n=13)

Six of the respondents were interested in Central and Southern Europe as their target market. Reasons that makes those areas interesting is that there is great potential, they are suitable for exporting services and there are possibilities for the company's products. There are also realistic conditions to establish exporting operation. One company informed that Central and Southern Europe has been one of their main market areas, but since the low economic situation they have lost their importing markets such as Greece and Spain. They should now find alternative market areas but it is difficult.

Eastern Europe was chosen as interesting market area by five companies. The reasons for that were quite the same as the ones that motivated companies to expand business into Scandinavian countries or Russia. Three companies were interested in Asia since it has a great potential as market area and there are possibilities for the company's products just like in CIS-countries that aroused interest in two companies. China and Africa both were chosen by one respondent. None of the companies were interested in expanding their operations into Middle-East. Northern and Southern America, Australia and New Zealand were also mentioned as interesting destinations to expand business activities.

6.2 The current situation of the Russian business

The next section of the questionnaire aimed to find out what is the current situation of the Russian business among the responded companies. Seven replied that they have experience in operating in the Russian market, but one of those had finished their operations in Russia (Figure 14.). There are also companies that have been trying or been thinking of expanding their business operations into Russia but for some reason have not done that yet. The number of those companies was six, from which one has actually done some effort trying to enter the Russian market but without success. One fourth of the companies replied to have no experience in business activities in Russia and have no intention to expand their business operations into Russia. From this on the survey concentrated on those thirteen companies that had experience in operating in the Russian market or were interested in entering the market.



Figure 14. The current situation of Russian trade (n=17)

The reasons that motivated companies from Kainuu to expand their business operations into Russian market were all proactive. The reason that had motivated companies the most was demand for the companies' products or services. Another reason was that operating in the Russian market was considered profitable. None of the companies informed of being in a situation in which they had to internationalize in order to survive. The most common entry strategy was exporting, which was used by five companies (Figure 15). Two companies informed using some other entry strategy. Other entry strategies included importing or a situation, in which the customer has been straight in contact with the company.

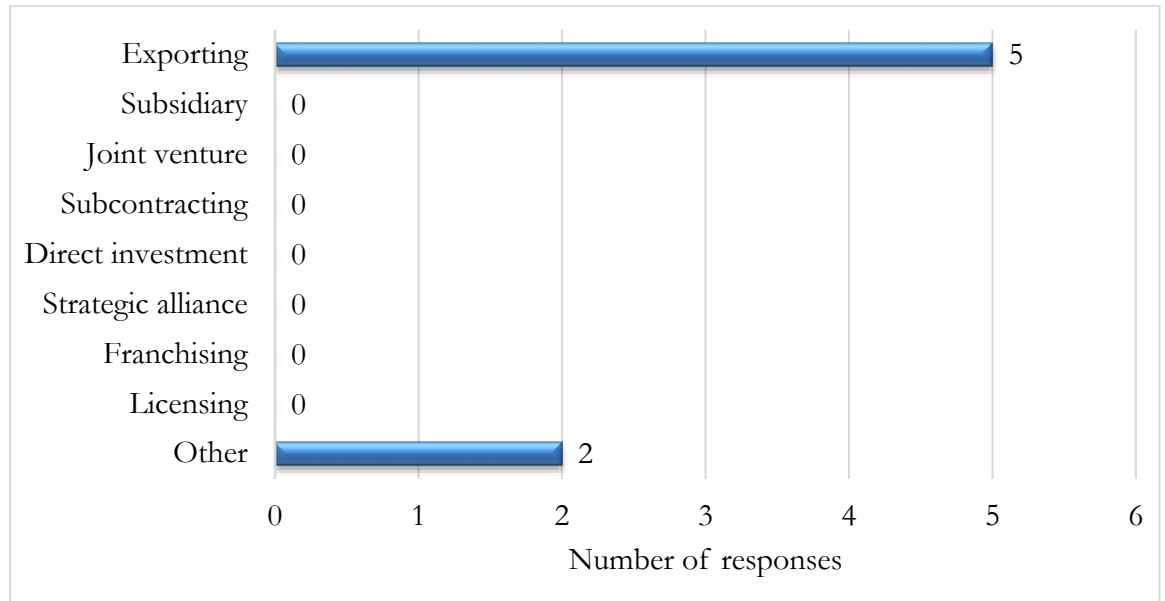


Figure 15. The most commonly used market entry strategy (n=7)

There were many reasons why companies had chosen exporting as a market entry strategy. First of all, export was considered as the simplest way to enter the market. Due to the close location of Russia, exporting to the country is profitable. One of the companies had chosen exporting as their entry strategy because the customers have been found in that way. The same company was considering of using some kind of reselling conception in the future. In some cases the decision concerning the entry strategy had not been deliberate; instead Russian clients themselves had contacted the Finnish company. Exporting was considered as the best way to ensure that the products are high quality since they have been produced in Finland. In some case the exporting company was providing such services that were not available in the Russian market yet, so there was demand for the unique services offered by the Finnish company.

The products that companies are exporting to Russia are peat production machinery, milling cutters, structure control systems, ski glide testers, drilling wells, log houses, furniture and freight wagons. The respondents were asked what the share of Russian trade is in their total revenue. There was a dispersion in replies to the question (Figure 16). Four companies informed that the share of Russian trade in their total revenue was maximum nine percent. None of the companies were receiving more than fifty percent of their revenue from Russian trade.

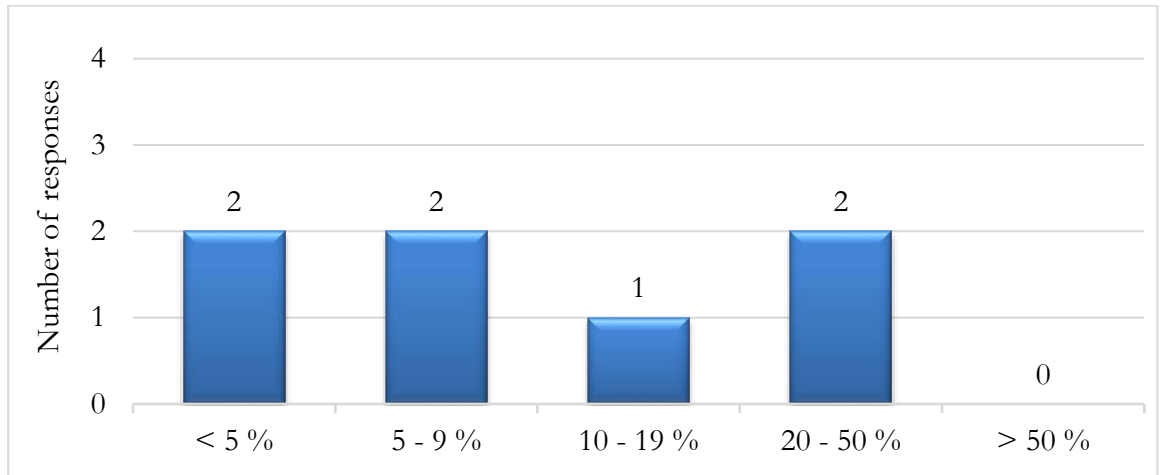


Figure 16. The percentage of Russian trade in the total revenue of the company (n=7)

The next question concerned the area in Russia, in which the company is operating. The respondents were able to choose more than one option, so the total amount of percentages are more than hundred (Figure 17.). Russia is the largest country in the world, so there is a huge geographical area for companies to expand, but it seems that companies rather choose the areas not so far away from Finland. Most of the companies, meaning five were conducting their business operations in the Republic of Karelia. Saint-Petersburg and Leningrad Region around it was a popular target market, since more than half of the respondents had business activities in there. Three of the companies were operating in the Moscow region. Murmansk region, Arkhangelsk region and other areas were chosen as target market by one company. Other areas, in which companies were operating in Russia were Yekaterinburg, Kirov and Vladimirovskiy region.

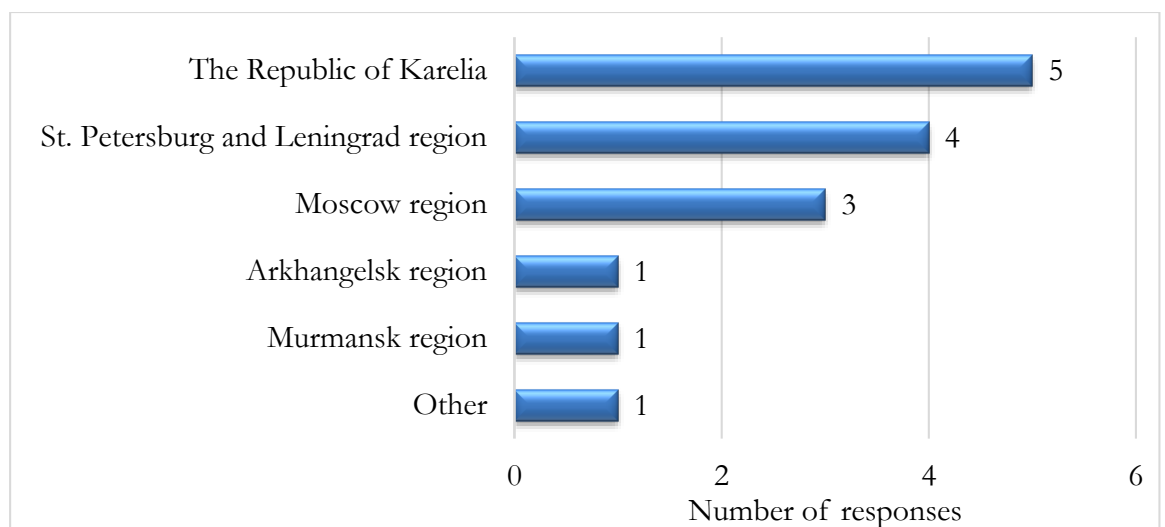


Figure 17. The market area in Russia (n=7)

According to the research, the reasons to do business in the Republic of Karelia or in Saint-Petersburg and Leningrad Region is their close location and the fact that there are customers and demand for the company's products or services. They are also easy destinations to export. A company that has import activities from Karelia, choosed the area because it is the only place in Russia from which it is profitable to import such products to Finland. One company informed that the reason why they started exporting to St. Petersburg was because the potential customers had contacted them. That was the reason why the same company started doing business in Moscow region as well. Other reasons that had lead companies to expand business operations into Moscow region was that the main target customer group of the product were in Moscow. All in all there is great demand, which probably the result from the huge amount of people living in the area. Murmansk and Arkhangelsk were chosen as target area since there is possibility to export to there. Yekaterinburg, Kirov and Vladimirskiy region have been chosen as target market because there are customers that are willing to buy the product.

The respondents were asked about their relation with Russia besides their Russian business activities. In addition to doing business in the Russian market, companies had other connections to Russia as well (Figure 18.).



Figure 18. Relation with Russia in addition to Russian business (n=7)

Most of those companies that are doing Russian business had Russian customers and two of them were cooperating with a Russian company in Finland. One had Russian natives as their employees. Two replied having some other connection to Russia. Other connections to Russia included such thing as using Russian machinery.

6.3 Interest towards the Russian market

In this section the aim was to find out the level of interest of the companies operating in the Kainuu region towards Russia. Statements were made and the respondents replied by using a five-point Likert scale whether they strongly agree, agree, are undecided, disagree or strongly disagree with the statement. The first question was about finding out whether there is interest among companies in Kainuu to start doing business in Russia or those that are already doing business in Russia to expand their operations. Eleven companies agreed or strongly agreed with the statement. Only two replied that they are not interested in expanding their business operations into the Russian market (Figure 19).

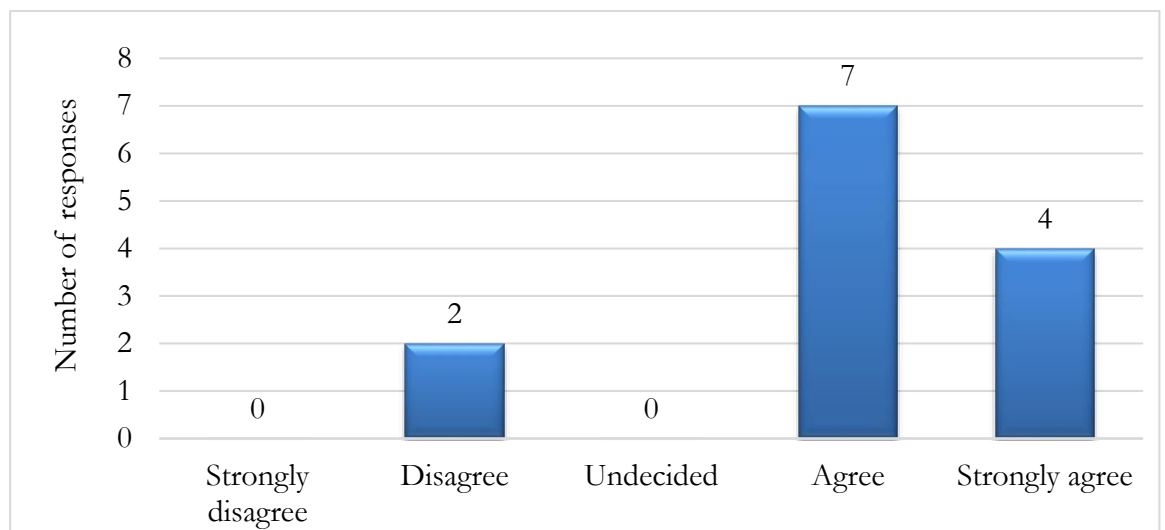


Figure 19. Willingness to expand business operations into Russia (n=13)

The interest of the companies towards Russia was examined in relation to the the size of the company measured by the number of employees and the revenue of the company. The willingness to expand business operations into Russia was first cross tabulated with the number of employees by SPSS software. Companies, in which the number of employees was maximum

twenty all agreed or strongly agreed with the statement of expanding business operations into Russia. Out of three companies that had from 21 to 50 employees, two agreed or strongly agreed with the statement and one was not interested in expanding business into the Russian market. The company that had more than 150 employees strongly disagreed with the statement. In this sampling the companies with fewer employees were a bit more interested in expanding their operations into Russia. Since the sampling of the survey was quite modest, it is impossible to generalize based on this cross tabulation that the number of employees has any correlation to the willingness to expand business operations into Russia. The above mentioned cross tabulation can be found from the Appendix 6.

The willingness to expand business operations into Russia was also cross tabulated with the revenue of the company by using SPSS software. The companies that had revenue in 2013 between 100 000 euros and 2 999 999 euros all agreed or strongly agreed with the statement of expanding their business into Russia. Out of two companies that had revenue between five and ten million euros, one strongly agreed with the statement and the other disagreed and so did the company with a revenue more than ten million euros. The cross tabulation can be found from the Appendix 7. In this sampling the companies with a smaller revenue were a bit more interested in expanding their operations into Russia. Since the sampling of the survey was quite modest, it is impossible to generalize based on this cross tabulation that the revenue of the company has any correlation to the willingness to expand business operations into Russia.

The next statement was to find out whether there is interest among the companies operating in Kainuu to participate in networking projects in which the goal is to increase business between Finnish and Russian operator. Companies in Kainuu were quite interested in networking since ten companies replied that they agree or strongly agree with the statement. Only one company disagreed with the statement and two companies could not say whether they agree or disagree with the statement (Figure 20).

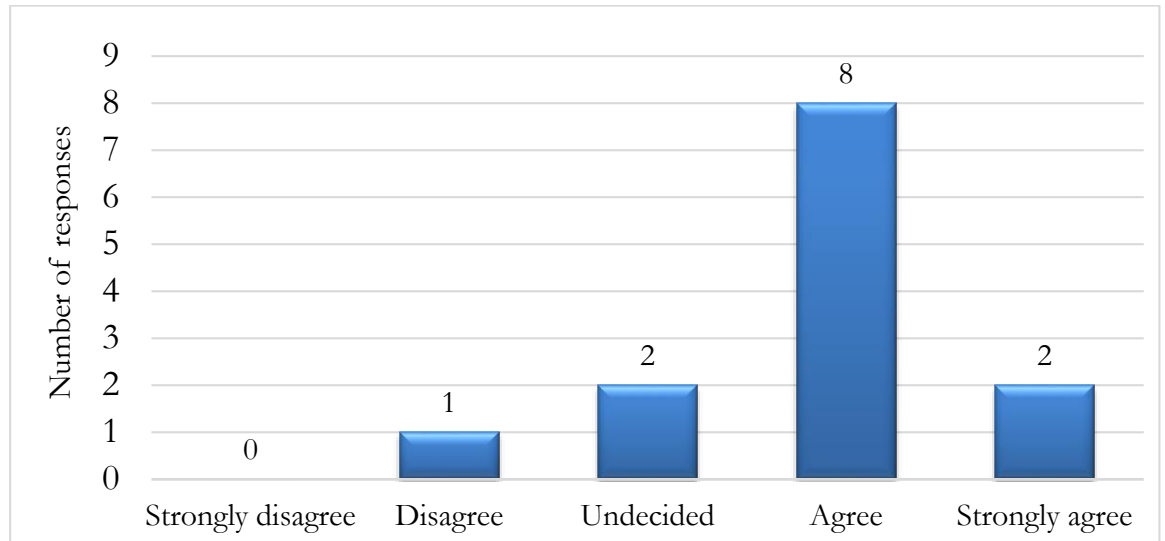


Figure 20. Willingness to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies (n=13)

The willingness to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies in relation to the size of the company was examined with SPSS by cross tabling. It was first cross tabulated with the number of employees (Appendix 8.). Companies, in which the number of employees was maximum five all agreed or strongly agreed with the statement and so did the companies in which the number of employees was between 21 and 50. From the companies that had from six to twenty employees two agreed or strongly agreed with the statement and other two were undecided whether they are willing to participate in networking or cooperative projects or not. The only medium-sized enterprise that had more than 150 employees was not interested in networking projects since it disagreed with the statement.

When examining the correlation between the company's revenue and the willingness to participate in networking or cooperative projects, the responses were dispersed quite the same way as when examining the relation between the number of employees and the opinion about the above mentioned statement. The companies that had revenue in maximum of 999 999 euros all agreed or strongly agreed with the statement and so did the companies with the revenue between five and ten million euros. From the companies that had revenue between one million and 2 999 999 euros two of them agreed or strongly agreed with the statement and other two could not say whether they agree or disagree with the statement. The company that had revenue more than ten million euros was not interested in participating in networking

or cooperative projects. The cross tabulation can be accessed in the Appendix 9. Based on this sampling it is impossible to say that the number of employees or the revenue affects on the company's willingness to participate in networking or cooperative projects.

The third statement related to interest towards the Russian market was to find out the willingness to cooperate, for example to start a joint venture with a Russian operator. Companies in Kainuu consider with caution of starting cooperation for example a joint venture with a Russian operator. More than half of the respondents could not say whether they are ready to cooperate with a Russian partner. Only three companies were interested in such operation and same amount of companies disagreed with the statement (Figure 21.).

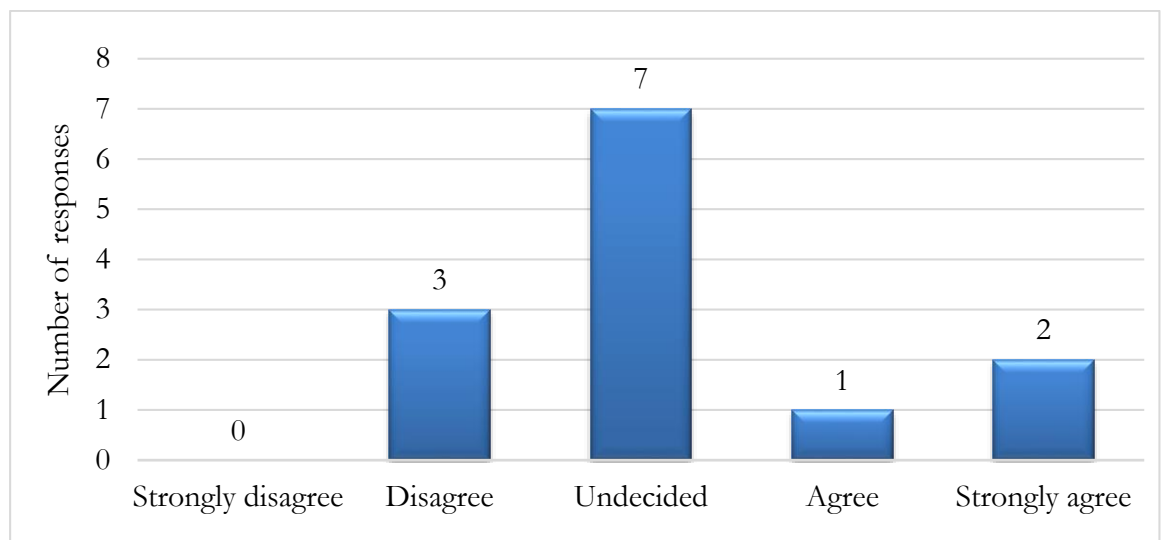


Figure 21. Willingness to cooperate, for example to start a joint venture with a Russian operator (n=13)

The level of interest in cooperating for example starting a joint venture with a Russian partner was quite small among all the responded companies. The correlation between the size of the company and the level of interest were examined with SPSS software. Companies in which the number of employees was maximum five were undecided or strongly agreed with the statement. Whereas companies that had six or more employees only one of them agreed with the statement, others disagreed or were undecided. The cross table concerning the correlation between the number of employees and the willingness to cooperate, for example start a joint venture with a Russian operator can be accessed in the Appendix 10.

The correlation between the willingness to cooperate with a Russian partner and the revenue of the company was examined by cross tabulating the responses (Appendix 11.). The companies that had revenue in maximum 999 999 euros all strongly agreed with the statement or were undecided. From the companies that had revenue one million euros or more, only one agreed with the statement, others disagreed with the statement or were undecided. So, the fewer employees company has and the smaller the revenue, the less negatively it conceive cooperation with a Russian partner. This pretencion cannot of course be generalized based on the sampling of the survey, because it was too small.

The respondents were asked to clarify their thoughts about expanding business operations into Russia and cooperation or networking with a Russian partner. According to responses the possibility to enter the Russian market depended on the business sector in which the company was operating. For example companies operating in tourism sector, it is much easier to start cooperation with a Russian partner than companies operating in some industrial sector. In industrial sector there are so many difficulties in case of producing and exporting products to Russia.

The reasons why companies were quite prudent when it came to starting operation in the Russian market or with a Russian partner was that there are so many difficulties running a business in Russia. There are also many risks related to operating in the Russian market such as lack of investment protection. Starting a production in Russia demands big investments and efforts from the company and they can all go to waste in case of some unpleasant surprise. The current low rate of ruble and the wide selection of local suppliers lead to the situation in which there is no demand for products of a company operating in Kainuu. Some company had already experience in networking project but the project did not lead to any results.

There was also a company among the respondents that could consider operating as a wholesaler and to supply products to Russian operator. Few companies could also consider cooperation related to product development, marketing or conducting a market research in the nearby areas and in Saint Petersburg. Increasing cooperation with officials was considered important as well. One company was keen on finding a suitable contact in the Russian market and to find out which particular products there is demand for. According to the respondents, no matter the form of cooperation, it should always be based on mutual trust.

The most interesting option of the entry strategies in case of expanding into Russia was exporting (Figure 22.). Two companies could consider using subcontracting or joint venture as their entry strategy. Strategic alliance was chosen as one of the possible entry strategies by one company. Respondents that could not find favourable entry strategy from the list and chose “other” as their entry strategy were interested in exporting services or using not only one entry strategy, but multiple strategies.

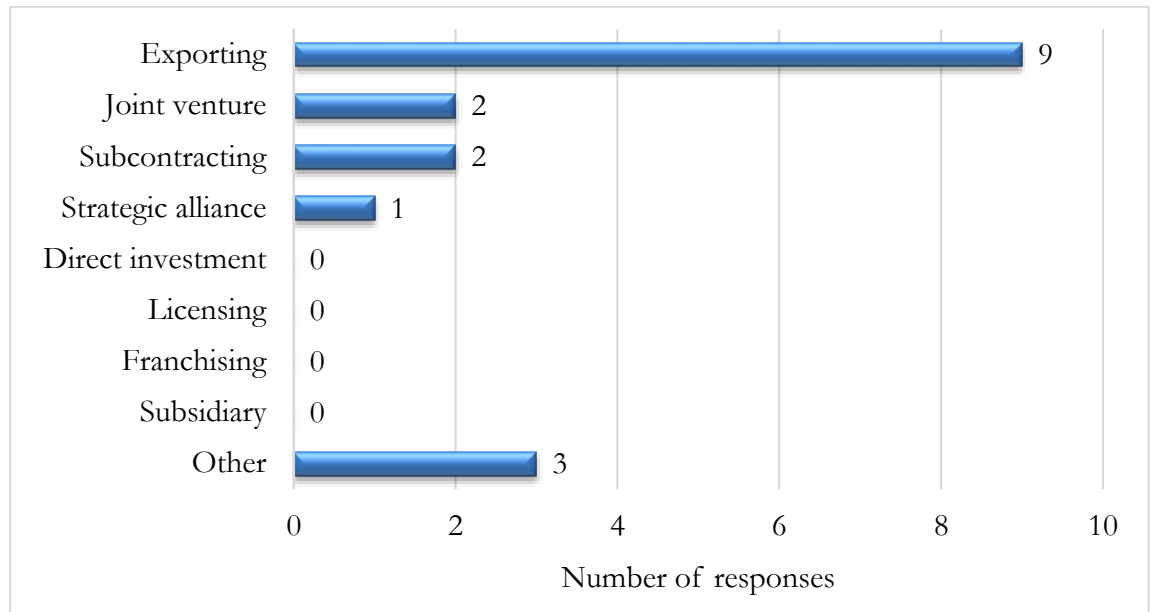


Figure 22. The most favourable entry strategy in case of possible business expansion to Russia (n=13)

The reason why most of the companies would prefer using exporting as their entry strategy, was because it is the easiest and less risky way. It is clear for both parties, for the exporter and the importer, that exporter takes care of supplying the goods across the border and importer would then take care of the distributing. Some companies did not have experience in any other strategy or had noticed that it has worked so far, so why to change a working strategy. The benefit in exporting is that it does not require heavy and complicating organization nor bureaucracy. Some companies could choose exporting as their entry strategy purely because they do not know any other. The reason why a company preferred using multiple strategies was because the legislation in Russia is so complicated that in order to success you cannot use only one strategy, you must use variety of them.

The companies were asked how they see the situation of their Russian trade after five to ten years. Most of the companies, meaning five out of thirteen expected that the share of Russian trade in their total revenue would be from 10 to 19 percent. Three companies expected the share of Russian trade in their revenue to be less than five percent (Figure 23).

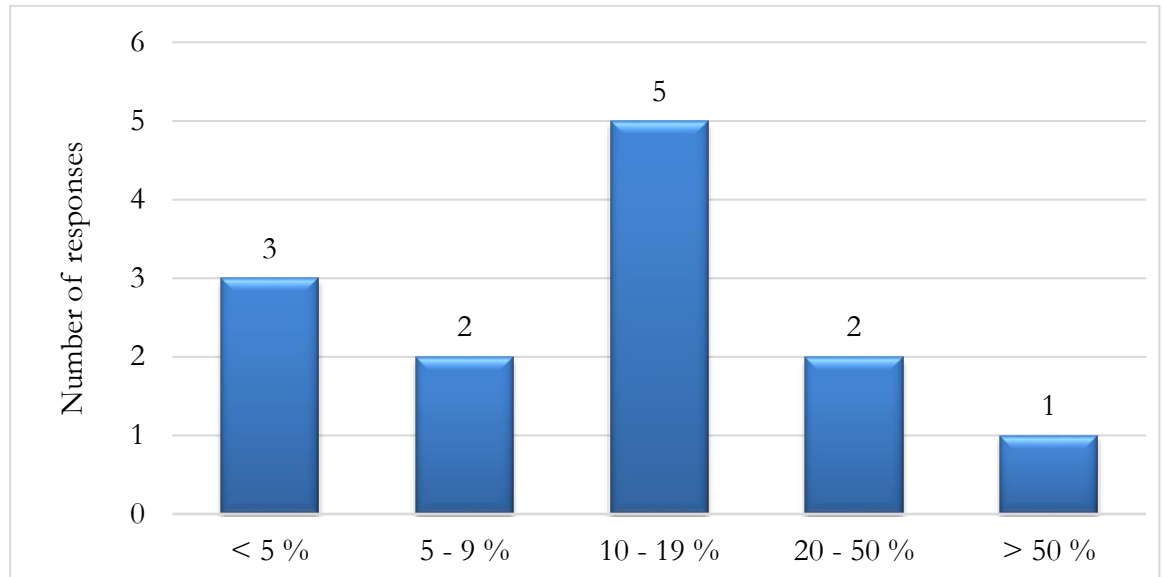


Figure 23. The expected share of Russian trade in the total revenue (n=13)

Most of the companies expected to operate in the Russian market after five to ten years. For one company the future Russian trade depends on the economic situation in Russia. In case it will get better, it leads to increase of demand. Other company expected to have two or three new Russian company as their client and another respondent expected to have several retailers in Russia. Three companies could not estimate the future state of their Russian trade. One of them expected to export regularly few times a year to Kostomuksha region or then not to have export at all. Two of the respondents expected not to have any business operation in Russia.

6.4 Challenges related to Russian business

As mentioned in the theory part, there are many challenges related to business operations in Russia. The aim was to find out if companies in the Kainuu region have faced challenges and if so, what kind of challenges have they faced. Ten companies informed of having faced with

some kind of problems. According to eight respondents, the greatest challenge were **the border formalities** (Figure 24). According to responses received from the companies, the customs officials do not always have the expertise needed in processing unusual machinery. Sometimes the procedures have not gone as agreed in advance.

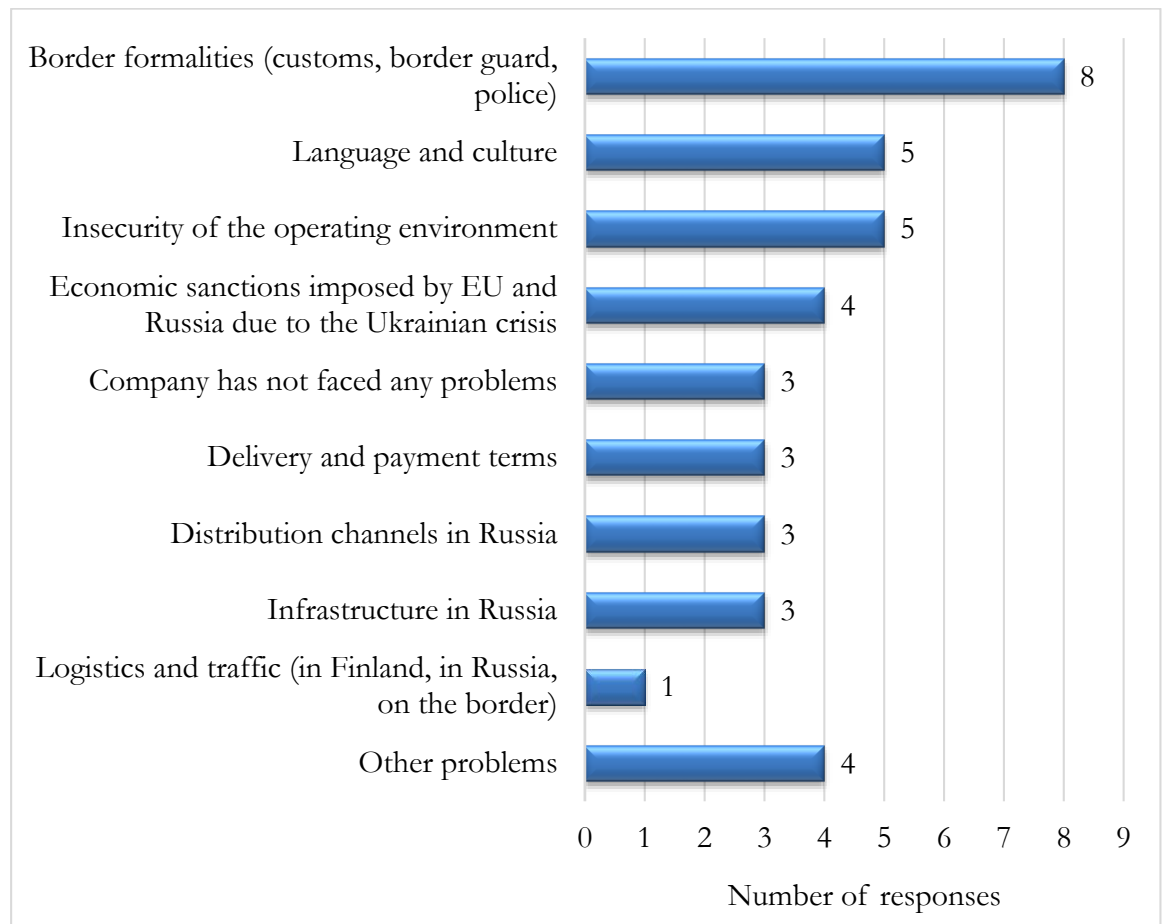


Figure 24. Challenges that company has faced when conducting business operations in the Russian market (n=13)

Russian **language and culture** have caused difficulties for five companies. The difference between Russian and Finnish cultures, as well as lack of Russian language skills seemed to have caused difficulties for companies operating in the Russian market. According to experiences of one company, there is hierarchy among Russian people that has to be followed and respected. That takes a lot of time and effort. Sometimes it has affected, so that the Finnish company has been forced to agree its counter partner's decision on selecting the third partner even though the third partner has been chosen for some other reason than its ability and accomplishments. Due to Russian bureaucracy, making decisions takes a lot of time. If the

Russians really want to solve a problem there is a way to do that. On the other hand, if they want for some reason for example to finish the goods reception, they will come up with an excuse for that as well. In Russia there is also a lack of respecting business contracts, meaning that the Russian will observe the contract as long as it is beneficial for them.

The same amount of the respondents that experienced Russian culture and language challenging, considered the **operating environment insecure**. Wide and deep spread corruption seems still be a problem for businesses. Another factor is political uncertainty; the decision-makers in companies and in public organizations change quite often.

Four respondents have faced problems because of **the sanctions set by EU and Russia due to Ukrainian crisis**. It was also mentioned that Finnish government should work harder to improve the business relations between Finland and Russia.

Three companies replied that they have had problems with **delivery and payment terms, distribution channels as well as poor infrastructure in Russia**, for example electricity supply does not always work. **Logistics and traffic** have caused difficulties for one of the respondents and four have had some other difficulties that could not be found from the given options. Other problems included difficulties to recognize suitable sales and marketing channels as well as finding good partners. Untrustworthy people in Russia in general was considered as a problem.

6.5 Internationalization services when entering the Russian market

The last section of the questionnaire was to find out what kind of internationalization services companies have used when entering and doing business in the Russian market. The respondents were also asked what kind services they would need in case they plan to enter the Russian market. First the companies were asked whether they have used some sort of internationalization service when entering or operating in the Russian market. As can be seen from the figure 25, nine companies of the respondents had never used any internationalization services.

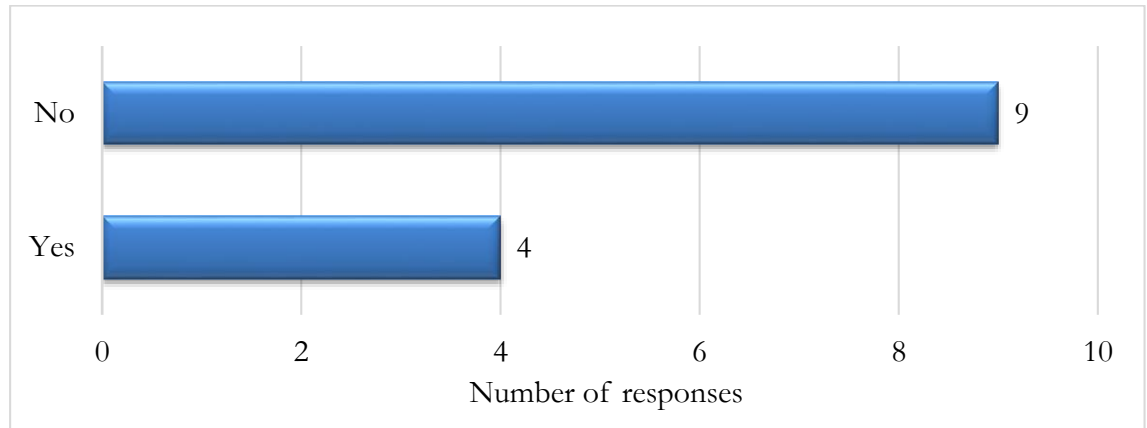


Figure 25. Usage of internationalization services when entering or operating in the Russian market (n=13)

Those four of the respondents that have used internationalization services were asked what organization offered them the services. Two of them had used services offered by Kainuun Etu Ltd and other two have used services offered by Finpro. Other organizations used were Seppo Hoffren Consulting and Eastwood programme of growth and development (Figure 26).

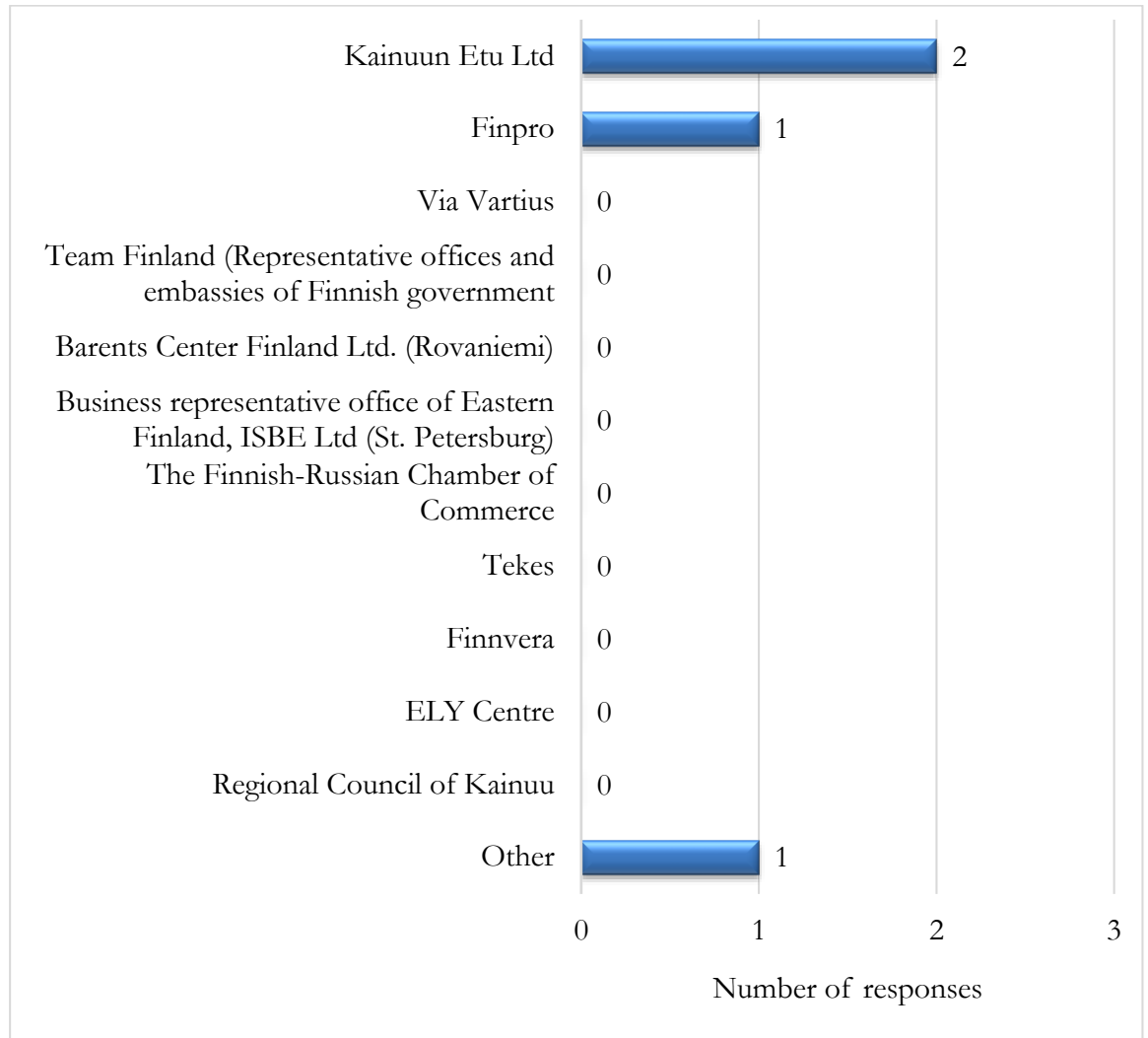


Figure 26. Organizations offering services that the companies have used (n=4)

The nature of services that companies have used has mostly been consulting and funding (Figure 27.). The consulting service has included for example searching a representative with the help of a consultant. Other services that could not be found from the given options, were used by one company.

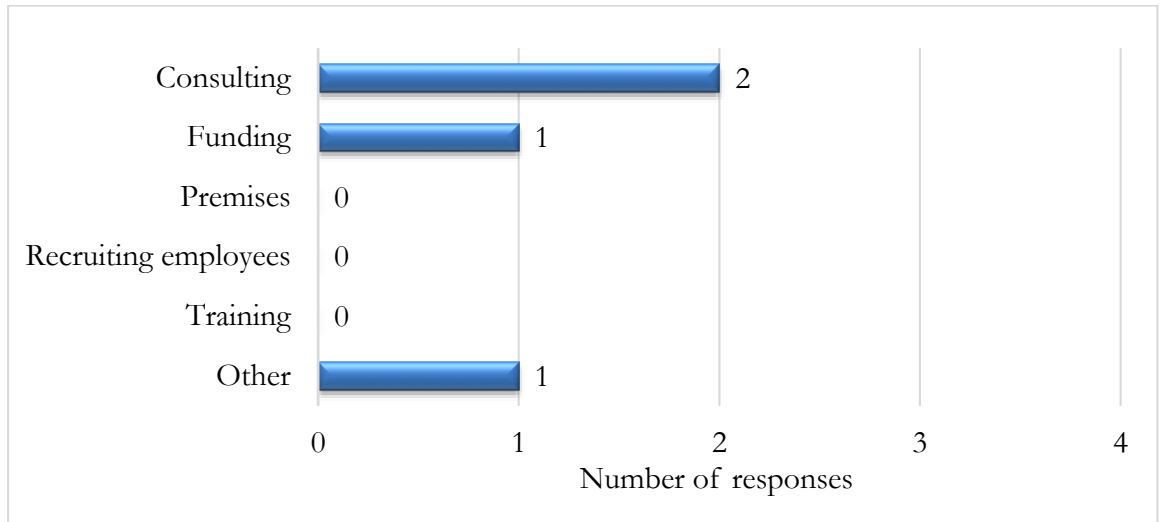


Figure 27. Internationalization services used when entering the Russian market (n=4)

The level of satisfaction with the support services was quite dispersed since two of the companies were satisfied with the services and other two were not (Figure 28.). Actually one company strongly disagreed with the statement concerning the satisfaction. The reasons why companies were dissatisfied with the service, was that the cooperation project in which the company had participated, had not led to any result. The result of the project had been a dead loss. There was also some unpleasant experience of feeling being taken advantage by the support service organization. From the entrepreneur's point of view the service organization was trying to get information from the company about contacts in Russia and give the information forward to third parties that had not done any effort for that information.

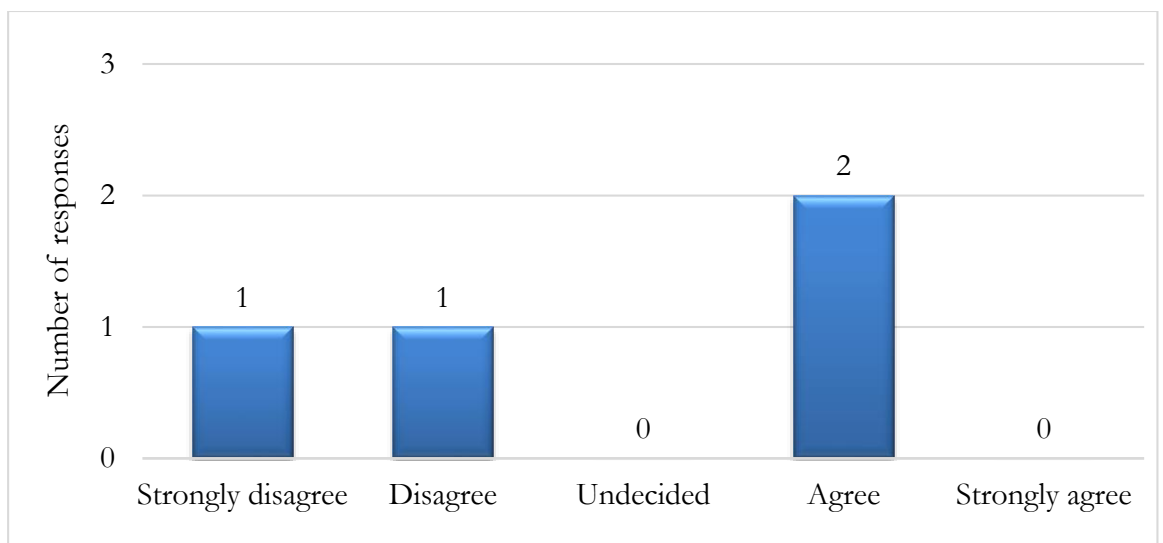


Figure 28. The level of satisfaction with the received internationalization services (n=4)

As mentioned earlier the Barents Link Center in Kostomuksha was built as a part of the Barents Link Forum project in cooperation between the Kainuu region and Kostomuksha city in 2007-2009. The project, as well as the building, was funded by the Euregio Karelia Neighbourhood programme. That is why there were questions in the survey concerning the Barents Link Center. The companies were asked whether they are aware of Barents Link Center. Even though the Center was built to serve enterprises from the Kainuu region to enter the market of Kostamuksha and other parts of Russia, nine of the respondents had never even heard of such a center (Figure 29).

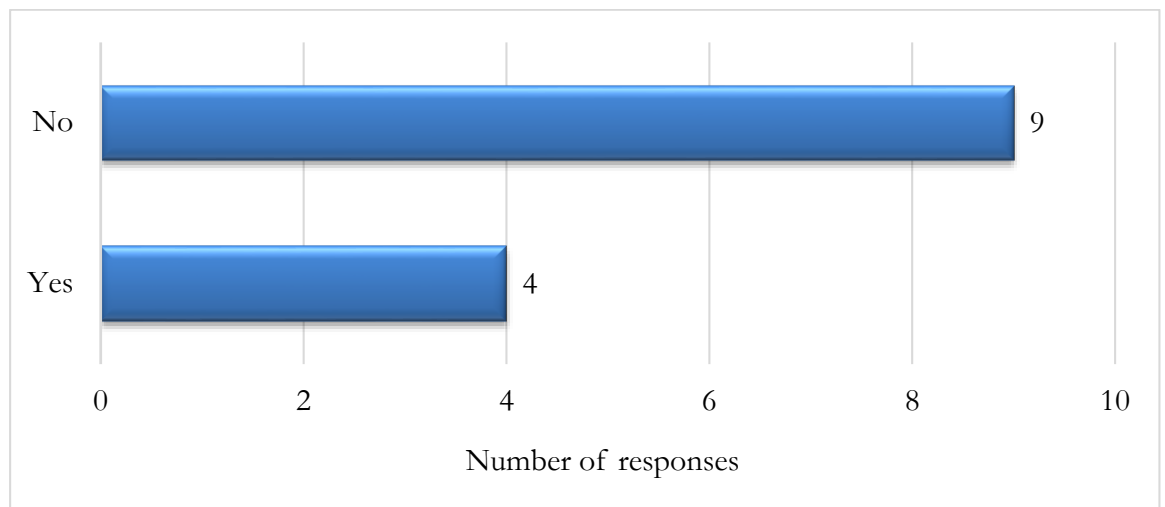


Figure 29. Awareness of the Barents Link Center locating in Kostomuksha (n=13)

Those four companies that had heard about the Barents Link Center were asked whether they have ever used its services. All of them replied that they have never used the services offered by the Barents Link Center (Figure 30). The Regional Council of Kainuu aims to develop the usage of the Barents Link Center by marketing it, not only for enterprises in Kainuu, but to companies in other regions in Finland as well.

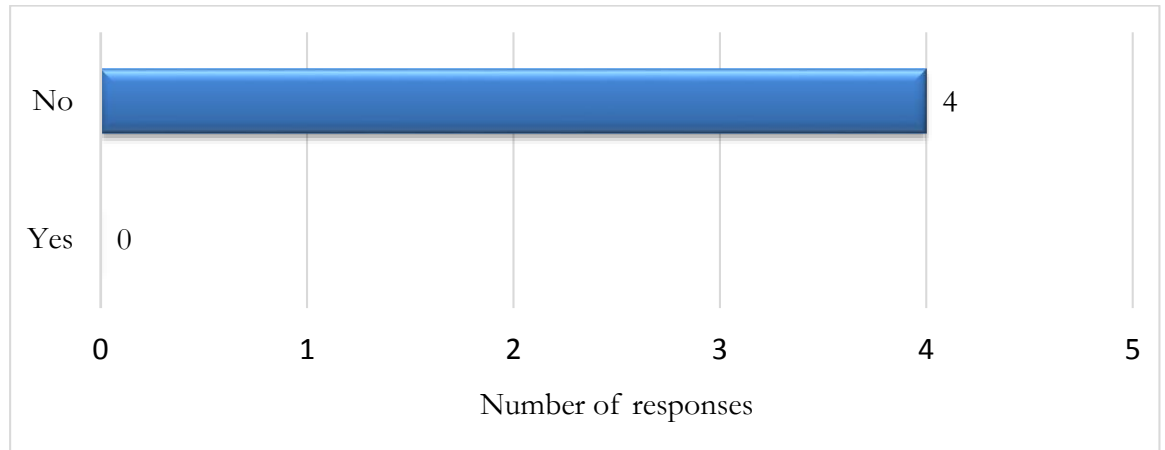


Figure 30. The usage of Barents Link Center (n=4)

The respondents were asked whether they need internationalization services or do they manage to enter foreign market on their own. More than half of the respondents replied that they do not need any internationalization services (Figure 31.).

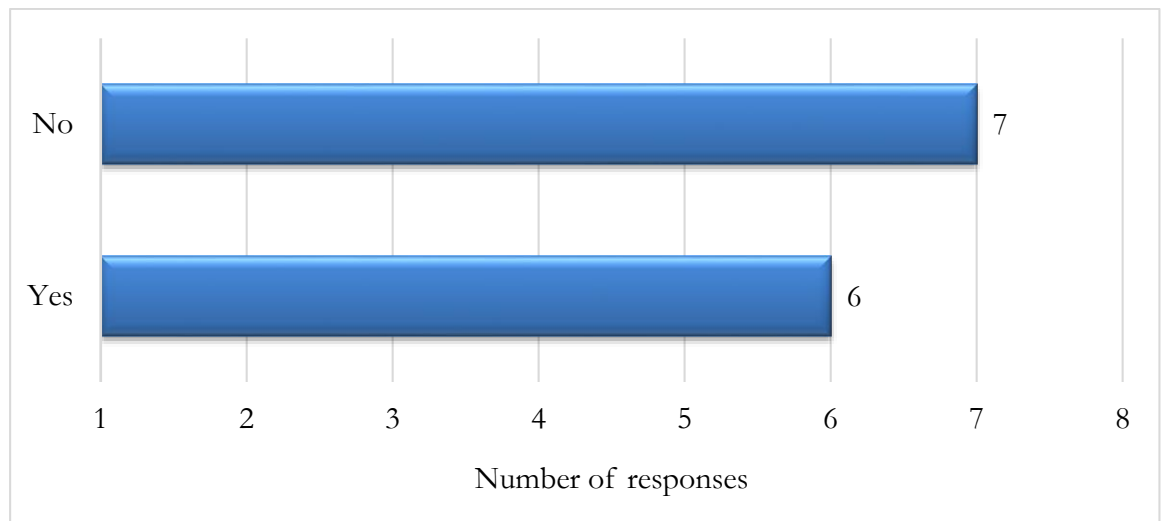


Figure 31. The need for internationalization services (n=13)

The need for internationalization services was compared to the size of the company measured by the number of employees, the revenue in 2013 and the share from Russian trade in the total revenue. The correlation was examined by using SPSS. First was examined the correlation between the number of employees and the need for internationalization services (Appendix 12.). The companies that had the greatest need for internationalization services are those that have employees from six to twenty. From those companies three out of four informed having

the need for internationalization services. Companies that do not have any need for such services are those that have only one employee or more than 150 employees.

Next was compared the need for internationalization services to the company's revenue in 2013 and examined what is their relation (Appendix 13.). The companies that have the greatest need for internationalization services are those that have revenue between one million and 2 999 999 euros. Three out of four companies informed that they would need services in their internationalization. Companies that do not need any internationalization services are those that have revenue between 500 000- 999 999 or 5 -10 million or more than 10 million euros.

Thirdly the need for internationalization services was compared to the share of Russian trade in the total revenue of the company (Appendix 14.). The share of Russian trade in the total revenue among those companies that have the need for internationalization services is between 20 and 50 percent. All the other companies informed that they do not have the need for support services in their internationalization activities.

To conclude what kind of a company has the need for internationalization services are those in which the number of employees is from six to twenty, revenue between one million and 2 999 999 euros and the share of Russian trade in the total revenue between 20 and 50 percent. Companies that have the least need for internationalization services are those that have only one employee or more than 150 employees, revenue between 500 000- 999 999 or more than 5 million euros and share of Russian trade in the total revenue less than 20 percent. This conclusion cannot be generalized to cover all the companies in Kainuu, since the sampling of the survey was so modest.

Those six companies that expressed their willingness to use internationalization services were asked what kind of services they would need the most. The respondents were able to choose several options, so the total percentage is more than one hundred (Figure 32.). Four companies replied that they need consulting services. Three of the respondents expressed their need for information about the Russian market. Two companies also needed help with interpretation and translations as well as marketing and advertising.



Figure 32. The internationalization services needed (n=6)

The services that companies wish to receive from Barents Link Center are interpretations services, contact information, support for new encounters and information about companies operating in the same sector in Russia. All in all companies wish to receive information and guidance from Barents Link Center. Naturally the Regional Council of Kainuu was interested in finding out how they can serve enterprises in the best possible way in the Kainuu Region. According to the survey, the companies need information about the markets and possibilities in Russia and overall information to get started the international expansion.

CONCLUSION

The main research problem of this study was to identify the specific and distinctive challenges that small and medium-sized enterprises in the Kainuu region face when they start their business expansion to Russia. Another research problem was to find out what kind of services they need from organizations during their internationalization process. Thirdly the study was to find out whether there is interest among enterprises in Kainuu to expand their business operations into the Russian market, network with a Russian operator or even start a joint-venture.

A questionnaire was drawn by using Digium Enterprise electronic query engine and the link to the questionnaire was sent by email for 64 companies. Seventeen of them replied to the questionnaire. Seven out of those seventeen companies informed having experience in operating in the Russian market and six of the respondents had been planning or trying to enter the Russian market. The reasons that motivated companies to expand their operations were all proactive. The reason that had motivated companies the most was demand for the companies' products or services. Another reason was that operating in the Russian market was considered profitable.

Despite the current unfavorable political and economic situation there was interest among respondents towards the Russian market. The respondents were given statements and they replied by using a five-point Likert scale whether they strongly agree, agree, are undecided, disagree or strongly disagree with the statement. The first statement was to find out whether the companies would like to start doing business in Russia or those that are already doing business in Russia to expand their operations. Eleven companies agreed or strongly agreed with the statement. Smaller companies were a bit more interested than the bigger ones. The greatest interest towards the Russian market were in companies in which the number of employees was between six and twenty and the revenue 100 000 - 199 999 euros or 1 million- 2 999 999 euros. The next statement was to find out whether there is interest in participating in networking projects in which the goal is to increase business between Finnish and Russian operators. Companies in Kainuu are quite interested in networking since ten replied that they agree or strongly agree with the statement. The third statement related to willingness to cooperate, for example to start a joint venture with a Russian operator. The respondents considered with caution of starting cooperation with a Russian operator, since more than half of the

respondents were undecided. Only three were interested in such operation and same amount of companies disagreed with the statement.

Despite the Russia's WTO membership and efforts done at the EU level to remove trade barriers, there is still variety of challenges related to Russian business. Ten of the respondents informed of having faced with some kind of difficulties when conducting business in Russia. The greatest challenge were the border formalities, for example the customs officials do not always have the expertise needed in clearing unusual machinery. The second greatest challenge was the difference between Russian and Finnish cultures, as well as lack of proficiency of Russian language skills. One example of a difference in cultures is the hierarchy in Russian society that has to be respected and it takes a lot of time and effort from the Finnish party. The operating environment in Russia was considered insecure. Wide and deep spread corruption and political uncertainty seems still be a problem for businesses. The Ukrainian crisis has had a negative impact not only on Finnish economy, but on enterprises in Kainuu as well. Four of the respondents have faced problems because of the sanctions set by EU and Russia due to Ukrainian crisis. Three companies have had problems with delivery and payment terms, distribution channels as well as poor infrastructure in Russia, for example electricity supply does not always work. Logistics and traffic have caused difficulties for one of the respondents and four companies have had difficulties in recognizing suitable sales and marketing channels as well as finding good partners.

Despite of all the challenges related to business in Russia, only six out of thirteen respondents informed of having the need for internationalization services. Most of those companies that expressed their need for services, would like to receive help with consulting. Companies also want to receive information about the Russian market. In addition to above-mentioned needs, companies would like Barents Link Center locating in Kostomuksha to support them for new encounters and giving information about companies operating in the same sector in Russia. From the Regional Council of Kainuu the companies wish to receive information about the markets and possibilities in Russia and overall information how to get started the international expansion. Since the sampling of the survey was quite modest, the results of the study do not represent the general situation or attitude of all the companies operating in the Kainuu region. The results given by SPSS software are only a reflection of the particular companies that took part in the survey and the results cannot be generalized.

As a recommendation, the companies that are considering expanding their business operations into Russia should however take into account the challenges represented in this research. It would be wise to make a market research as well as to analyse the challenges and benefits that Russian trade would bring for the company. Then the entrepreneurs or managers of the companies' should estimate their own resources, whether the company has what it takes to succeed in Russian market. In my opinion the companies in Kainuu should not be too depressed due to the current economic situation. There have been recessions and poor economic situations before and they have always been followed by an economic upswing and I strongly believe that so will this current situation.

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APPENDIX 1: Cover letter

HYVÄ VASTAANOTTAJA!

Opiskelen Kajaanin ammattikorkeakoulussa International business – koulutusohjelmassa ja teen opinnäytetyötäni Kainuun liiton toimeksiannosta. Tutkimuksen tavoitteena on edistää kainuulaisten yritysten liiketoiminnan laajentamista Venäjän markkinoille. Opinnäytetyö toteutetaan kyselytutkimuksena, johon kutsun teidät osallistumaan. Kyselyyn vastaaminen vie ajastanne noin kymmenen minuuttia.

Oheisella kyselyllä selvitetään yrittäjien kohtaamat Venäjän-kauppaan liittyvät haasteet ja kansainvälistymispalvelujen tarpeet sekä mahdollinen kiinnostus yhteistyöhön venäläisen toimijan kanssa.

Osallistuminen kyselyyn on vapaaehtoista ja antamanne vastaukset käsitellään ehdottoman luottamuksellisesti eikä yksittäinen vastaaja ole tunnistettavissa tuloksista. Kysely on avoinna torstaihin 29.1.2015 saakka. Tutkimustulokset julkaistaan opinnäytetyössän Internetissä osoitteessa www.theseus.fi.

Kyselyyn pääsette alla olevasta linkistä:

#LINK#

Osallistumalla kyselyyn autatte Kainuun liittoa kehittämään toimintaansa ja palvelujaan kainuulaisten yrittäjien parhaaksi. Kiitos jo etukäteen ajastanne ja vastauksistanne!

Ystävällisin terveisin,

Mervi Väisänen

Tarvittaessa voitte kysyä lisätietoa tutkimuksestani sähköpostitse mervi.vaisanen@kainuu.fi tai puhelimitse +358-40-5762104.

DEAR RECIPIENT!

I am studying International business at the Kajaani University of Applied Sciences and I am doing my thesis for the Regional Council of Kainuu. The aim of the research is to promote expansion of business operation of enterprises from the Kainuu region into the Russian market. The thesis research will be carried out by using a questionnaire to which I now invite you. Replying to the questionnaire will take only about ten minutes of your time.

The main object of the survey is to find out what the challenges that companies are facing and what kind of services do they need when expanding their business operation into Russia as well as possible interest towards cooperation with a Russian partner.

Participation in the survey is totally optional and your responses will be handled extremely confidentially without a possibility to recognize individual response from the survey results. The questionnaire will be open until Thursday 29th January 2015. The survey results will be published in my thesis in the Internet web page www.theseus.fi.

You can enter the questionnaire through the link below.

#LINK#

In case the link does not work, please copy it to the address bar by using the mouse.

By participating in the survey, you will help the Regional Council of Kainuu to develop its activities and services for the benefit of entrepreneurs operating in the Kainuu region. Thank you in advance for your time and response!

With kind regards,

Mervi Väisänen

In case you will need more information about my research, please do not hesitate to contact me through email mervi.vaisanen@kainuu.fi or telephone +358-40-5762104.

APPENDIX 2: Reminder

HYVÄ VASTAANOTTAJA!

Lähetin teille 22.1.2015 sähköpostia Venäjän-kauppaan liittyvän tutkimukseni tiimoilta. Teidän vastauksenne on todella tärkeä osa tutkimusta, koska tutkimustulosten pohjalta Kainuun liitto pyrkii kehittämään palvelujaan nimenomaan kainuulaisten yrittäjien parhaaksi. Kyselyn vastausaikaa on jatkettu perjantaihin 6.2.2015 saakka.

Opiskelen Kajaanin ammattikorkeakoulussa International business – koulutusohjelmassa ja teen opinnäytetyötäni Kainuun liiton toimeksiannosta. Tutkimuksen tavoitteena on edistää kainuulaisten yritysten liiketoiminnan laajentamista Venäjän markkinoille. Opinnäytetyö toteutetaan kyselytutkimuksena, johon kutsun teidät osallistumaan. Kyselyyn vastaaminen vie ajastanne noin kymmenen minuuttia.

Oheisella kyselyllä selvitetään yrittäjien kohtaamat Venäjän-kauppaan liittyvät haasteet ja kansainvälistymispalvelujen tarpeet sekä mahdollinen kiinnostus yhteistyöhön venäläisen toimijan kanssa. Osallistuminen kyselyyn on vapaaehtoista, eikä vastauksenne velvoita teitä mihinkään. Antamanne vastaukset käsitellään ehdottoman luottamuksellisesti. Yksittäinen vastaaja ole tunnistettavissa tuloksista. Tutkimustulokset julkaistaan opinnäytetyössän Internetissä osoitteessa www.theseus.fi.

Kyselyyn pääsette alla olevasta linkistä:

#LINK#

Mikäli linkki ei toimi, kopioikaa se osoiteriville hiirtä käyttäen. Osallistumalla kyselyyn autatte Kainuun liittoa kehittämään toimintaansa ja palvelujaan kainuulaisten yrittäjien parhaaksi. Kiitos jo etukäteen ajastanne ja vastauksistanne!

Ystävällisin terveisin,

Mervi Väisänen

Tarvittaessa voitte kysyä lisätietoa tutkimuksestani sähköpostitse mervi.vaisanen@kainuu.fi tai puhelimitse +358-40-5762104.

DEAR RECIPIENT!

I sent you an email in 22nd January 2015 concerning a research about Russian trade. Your response will be a very important part of the survey, because the Regional Council of Kainuu will develop its activities and services for the benefit of entrepreneurs operating in the Kainuu region based on the results from this survey. The response time will be until Friday 6th February 2015.

I am studying International business at the Kajaani University of Applied Sciences and I am doing my thesis for the Regional Council of Kainuu. The aim of the research is to promote expansion of business operation of enterprises from the Kainuu region into the Russian market. The thesis research will be carried out by using a questionnaire to which I now invite you. Rep-lying to the questionnaire will take only about ten minutes of your time.

The main object of the survey is to find out what the challenges that companies are facing and what kind of services do they need when expanding their business operation into Russia as well as possible interest towards cooperation with a Russian partner. Participation in the survey is totally optional and your responses will not obligate you in any way. Your responses will be handled extremely confidently. An individual response will not be recognized from the survey results. The survey results will be published in my thesis in the Internet web page www.theseus.fi.

You can enter the questionnaire through the link below.

#LINK#

In case the link does not work, please copy it to the address bar by using the mouse. By participating in the survey, you will help the Regional Council of Kainuu to develop its activities and services for the benefit of entrepreneurs operating in the Kainuu region. Thank you in advance for your time and response!

With kind regards,

Mervi Väisänen

In case you will need more information about my research, please do not hesitate to contact me through email mervi.vaisanen@kainuu.fi or telephone +358-40-5762104.

APPENDIX 3: Questionnaire

Kainuulaisten yritysten Venäjän-kaupan tilaa selvittävä kysely

Tervetuloa täyttämään Venäjän-kaupan tilaa selvittävää kyselyä!

Kysely on osa tutkimusta, jonka tavoitteena on edistää kainuulaisten yritysten liiketoiminnan laajentamista Venäjän markkinoille. Oheisella kyselyllä selvitetään yrittäjien kohtaamat haasteet ja kansainvälistymispalvelujen tarpeet sekä mahdollinen kiinnostus yhteistyöhön venäläisen toimijan kanssa.

Osallistumalla kyselyyn autatte Kainuun liittoa kehittämään toimintaansa ja palvelujaan kainuulaisten yrittäjien parhaaksi. Kyselyyn vastaaminen vie ajastanne vain noin kymmenen minuuttia.

Kysely on avoinna torstaihin 29.1.2015 saakka.

Kiitos jo etukäteen ajastanne ja vastauksistanne!

1. Vastaajan nimi _____

2. Organisaatio _____

3. Vastaajan tehtävänimike _____

4. Alla on lueteltu Kainuun maakuntaohjelmassa määriteltyjä elinkeinoelämän painopistealoja. Mihin seuraavista aloista yritys kuuluu?

Biotalous, metsäala, puurakentaminen

Kaivannaisteollisuus

Metalli

Elintarviketalous (maatalous ja teollisuus)

Tieto- ja viestintäteknologia (ICT) ja elektroniikka

Jokin muu, mikä? _____

5. Yrityksen perustamisvuosi _____

6. Yritysmuoto

Toiminimi

Avoin yhtiö

Kommandiittiyhtiö

Osakeyhtiö

Osuuskunta

Jokin muu, mikä? _____

7. Yrityksen henkilömäärä

1 hlö

2-5 hlöä

6–20 hlöä

21–50 hlöä

51–100 hlöä

101–150 hlöä

yli 150 hlöä

8. Liikevaihto vuonna 2013

Alle 50 000

50 000-99 999

100 000- 199 999

200 000-499 999

500 000- 999 999

1 milj.- 2 999 999

3 milj. -4 999 999

5 -10 miljoonaa

Yli 10 miljoonaa

Ei liikevaihtoa

9. Onko yrityksellä kokemusta ulkomaankaupasta?

Ei

Kyllä. Vientiä vai tuontia? _____

10. Onko yrityksellä kiinnostusta laajentaa toimintaansa ulkomaanmarkkinoille?

Ei

Kyllä. Milloin? _____

11. Minne yritys on kiinnostunut laajentamaan toimintaansa? Voitte valita useamman vaihtoehdon.

Pohjoismaat

Keski- ja Etelä-Eurooppa

Itä-Eurooppa

IVY-maat

Venäjä

Aasia

Kiina

Afrikka

Lähi-Itä

Jokin muu, mikä? _____

12. Miksi yritys on kiinnostunut juuri kyseisestä markkina-alueesta?

13. Venäjän-kaupan nykyinen tilanne

Yritys harjoittaa Venäjän-kauppaa

Yritys on harjoittanut Venäjän-kauppaa, mutta kaupankäynti on päättynyt

Yritys on pyrkinyt Venäjän markkinoille, mutta ei ole onnistunut

- Yritys on harkinnut Venäjän-kauppaa, mutta ei ole sitä vielä aloittanut
- Venäjän-kauppaa ei ole ollut, eikä sitä ole suunnitelmassa

14. Miksi yritys aloitti Venäjän-kaupan?

15. Mitä markkinoillemenostrategiaa yritys käytti?

- Vienti
- Lisensointi
- Franchising
- Strateginen liittouma
- Suora investointi
- Alihankinta
- Yhteisyritys
- Tytäryhtiö
- Jokin muu, mikä? _____

16. Miksi yritys valitsi juuri kyseisen markkinoillemenostrategian?

17. Tuotteet ja palvelut, joilla yritys käy tai on käynyt kauppaa Venäjällä?

18. Venäjän-kaupan osuus yrityksen liikevaihdosta?

- Alle 5 %
- 5 % -9 %
- 10 % - 19 %
- 20 % - 50 %
- Yli 50 %

19. Markkina-alue Venäjällä? Voitte valita useamman vaihtoehdon.

- Murmanskin alue
- Arkangelin alue
- Karjalan tasavalta
- Pietari ja Leningradin alue
- Moskovan alue
- Jokin muu, mikä? _____

20. Miksi yritys on valinnut juuri kyseisen markkina-alueen?

21. Yrityksen Venäjä-kontaktit? Voitte valita useamman vaihtoehdon.

- Yhteistyötä venäläisyritysten kanssa Suomessa
- EU-hankerahoitteinen yhteistyö
- Venäläisiä työntekijöitä
- Venäläisiä asiakkaita
- Ei Venäjä-kontakteja
- Jokin muu, mikä? _____

27. Miksi yritys on kiinnostunut käyttämään juuri kyseisiä markkinoillemenostrategioita?

28. Venäjän-kaupan odotettu osuus yrityksen liikevaihdosta 5-10 vuoden kuluttua?

- Alle 5 %
- 5 % -9 %
- 10 % - 19 %
- 20 % - 50 %
- Yli 50 %

29. Kuinka kuvailisitte yrityksen Venäjän-kaupan tilaa 5-10 vuoden kuluttua?

30. Haasteet, joihin yritys on törmännyt Venäjän-kauppaa tehdessään? Voitte valita useamman vaihtoehdon.

- Rajamuodollisuudet (Tulli, rajavartiolaitos, poliisi)
- Logistiikka ja liikenne (Suomessa, Venäjällä, rajalla)
- Infrastruktuuri Venäjällä
- Jakelukanavat Venäjällä
- Kieli ja kulttuuri
- Toimitus- ja maksuehdot (rahaliikenne)
- Toimintaympäristön turvattomuus (korruptio, suojelurahat)
- Ukrainan kriisin seuranneet EU:n ja Venäjän asettamat talouspakotteet
- Yrityksellä ei ole ollut ongelmia Venäjän-kaupan yhteydessä
- Muita ongelmia _____

31. Tässä voitte kertoa tarkemmin kohtaamistanne haasteista ja erityistekijöistä Venäjän-kaupan yhteydessä.

Kansainvälistymispalveluilla tarkoitetaan julkisten ja yksityisten tahojen tarjoamia tukipalveluja kansainvälistyville yrityksille. Tukipalveluja ovat mm. kansainvälistymissuunnitelman laadinta, rahoituksen suunnittelu ja hankinta sekä kansainvälisten verkostojen hyödyntäminen.

32. Onko yritys käyttänyt kansainvälistymispalveluja Venäjän markkinoiden avaamiseen?

- Ei
 Kyllä

33. Minkä organisaation tarjoamia palveluja yritys on käyttänyt? Voitte valita useamman vaihtoehdon.

- Kainuun liitto
 Ely-keskus
 Kainuun Etu Oy
 Finpro
 Finnvera
 Tekes
 Suomalais-Venäläinen kauppakamari
 Itä-Suomen Businessedustusto ISBE Oy (Pietari)
 Barentskeskus Finland Oy (Rovaniemi)
 Team Finland (Suomen edustustot ja lähetystöt)
 Via Vartius Oy
 Jokin muu, mikä? _____

34. Mitä kansainvälistymispalveluja yritys on käyttänyt? Voitte valita useamman vaihtoehdon.

konsultointi

koulutus

rahoitus

työntekijöiden rekrytointi

toimitilat

Jokin muu, mikä? _____

35. Yritys on tyytyväinen käyttämiinsä kansainvälistymispalveluihin.

Täysin samaa mieltä Samaa mieltä En osaa sanoa Eri mieltä Täysin eri mieltä

()

()

()

()

()

36. Tässä voitte kertoa tarkemmin käyttämistänne kansainvälistymispalveluista sekä kokemuk-
sistanne niihin liittyen.

Barents Link Center on Kostamuksessa sijaitseva toimisto, jonka tehtävänä on edistää raja-
alueyhteistyötä ja palvella yrityksiä Barents Linkin kehityskäytävän vaikutuspiirissä liiketoimin-
nan kehittämisessä.

37. Onko yritys ollut tätä ennen tietoinen Barents Link Centeristä?

() Ei

() Kyllä

38. Onko yritys käyttänyt Kostamuksessa sijaitsevan Barents Link Centerin palveluja?

() Ei

() Kyllä

39. Onko yrityksellä tarvetta kansainvälistymispalveluille?

() Ei

() Kyllä

40. Minkälaisia kansainvälistymispalveluja yritys toivoo saavansa? Voitte valita useamman vaihtoehdon.

konsultointi

tulkkipalvelut

koulutus

rahoitus

työntekijöiden rekrytointi

toimitilat

mainonta ja markkinointi

tietoa Venäjän markkinoista

Jokin muu, mikä? _____

41. Minkälaisia palveluja yritys toivoo saavansa Barents Link Centeriltä?

42. Minkälaisia kansainvälistymispalveluja yritys toivoo saavansa Kainuun liitolta?

Survey about the situation of Russian trade among companies in Kainuu

Welcome to take part of the survey, which will determine the situation of Russian trade!

The survey is a part of the research, of which the aim is to encourage local enterprises to expand their business operations into the Russian market. The survey will examine the challenges faced by entrepreneurs and need for internationalization services as well as the level of interest to cooperate with a Russian operator.

By participating in the survey you will help the Regional Council of Kainuu to develop the activities and services for the entrepreneurs in the region. Filling in the questionnaire will take only about ten minutes of your time.

The survey will be open until Thursday, 29 January 2015. Thank you in advance for your time and effort!

1. Name of the respondent _____

2. Organization _____

3. Title of the respondent _____

4. Priority areas of the business sector identified in the Kainuu Regional program are listed below. In which field is your company operating?

Bio-based economy, forestry, wood construction

Mining industry

Metal industry

Food sector (Agriculture and Industry)

Information and communication technologies (ICT) and electronics

Other, please indicate _____

5. Year of Business establishment _____

6. Company form

- Sole trader
- General partnership
- Limited partnership
- Limited liability company
- Cooperative
- Other, please indicate? _____

7. Number of employees

- 1 person
- 2-5
- 6–20
- 21–50
- 51–100
- 101–150
- more than 150 people

8. Revenue in 2013

- Less than 50 000
- 50 000-99 999
- 100 000- 199 999
- 200 000-499 999
- 500 000- 999 999
- 1 million - 2 999 999
- 3 million -4 999 999
- 5 -10 million
- More than 10 million
- No revenue

9. Does the company have experience in foreign trade?

No

Yes. Export or import? _____

10. Does the company have any interest to expand its operations into foreign markets?

No

Yes. When? _____

11. Where is the company interested in expanding its operation? You can choose more than one option.

Scandinavian countries

Central and Southern Europe

Eastern Europe

CIS countries

Russia

Asia

China

Africa

Middle East

Other, please indicate? _____

12. Why is the company interested in the specific country or area?

13. The current situation of the Russian trade

The company is conducting business operation in the Russian market

The company has conducted business operation in the Russian market, but it has ended

The company has tried to enter the Russian market, but has not been successful

- The company has considered expanding its business operation into the Russian market
- The company has not conducted any business operation in the Russian market, neither is considering it

14. Why did the company decide to enter the Russian market?

15. Which market entry strategy did the company use?

- Exporting
- Licensing
- Franchising
- Strategic alliance
- Direct investment
- Subcontracting
- Joint venture
- Subsidiary
- Other, please indicate? _____

16. Why did the company choose the particular market entry strategy?

17. Products and services on which the company is/has been trading in Russia?

18. What is the share of revenue from Russian trade?

- Less than 5 %
- 5 % -9 %
- 10 % - 19 %
- 20 % - 50 %
- More than 50 %

19. What is the market area in Russia? You can choose more than one option.

- Murmansk region
- Arkhangelsk region
- The Republic of Karelia
- St. Petersburg and Leningrad region
- Moscow region
- Other, please indicate _____

20. Why did the company choose the particular market area?

21. What kind of cooperation do you have with Russia? You can choose more than one option.

- Cooperation with a Russian company in Finland
- Cooperation funded by an EU project
- Russian employees
- Russian customers
- No relation with Russia
- Other, please indicate _____

22. Company is keen on expanding its business operation into Russia

Strongly agree	Agree	Undecided	Disagree	Strongly disagree
()	()	()	()	()

23. Company is willing to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies.

Strongly agree	Agree	Undecided	Disagree	Strongly disagree
()	()	()	()	()

24. Company is willing to cooperate, for example start a joint venture with a Russian operator.

Strongly agree	Agree	Undecided	Disagree	Strongly disagree
()	()	()	()	()

25. Here you can tell more about your thoughts, plans and wishes concerning cooperation with a Russian operator.

26. Which market entry strategy would the company like to use when aiming to enter the Russian market? You can choose more than one option.

Exporting

Licensing

Franchising

Strategic alliance

Direct investment

Subcontracting

Joint venture

Subsidiary

Other, please indicate _____

27. Why is the company interested in using the particular market entry strategy?

28. The expected share of Russian trade in the total revenue after 5-10 years?

- Less than 5 %
- 5 % -9 %
- 10 % - 19 %
- 20 % - 50 %
- More than 50 %

29. How would you describe the situation of Russian trade of your company after 5-10 years?

30. What kind of challenges has the company faced when conducting business operations in The Russian market? You can choose more than one option.

- Border Formalities (Customs, Border Guard, Police)
- Logistics and traffic (in Finland, in Russia, on the border)
- Infrastructure in Russia
- Distribution channels in Russia
- Language and culture
- Delivery and payment terms
- Insecurity of the operating environment (corruption, protection money)
- Economic sanctions imposed by EU and Russia due to the Ukrainian crisis
- Company has not faced any problems when conducting business operation in the Russian market
- Other problems _____

31. Here you can tell more about the challenges and special features related to Russian trade.

Internationalization services mean support activities given by public or private sector organization to companies that are planning foreign trade. Support activities include such things as creating internationalization plan, planning and applying funding as well taking advantage of international networks.

32. Has the company used internationalization services to enter Russian market?

No

Yes

33. Which organizations offering services has the company used? You can choose more than one option.

The Regional Council of Kainuu

ELY-center

Kainuun Etu Ltd

Finpro

Finnvera

Tekes

The Finnish-Russian Chamber of Commerce

Business Representative Office of Eastern Finland, ISBE Ltd (St. Petersburg)

Barents Center Finland Ltd (Rovaniemi)

Team Finland (Representative offices and embassies of Finnish government)

Via Vartius Ltd

Other, please indicate _____

34. What internationalization services has the company used? You can choose more than one option.

Consulting

Training

- Funding
- Recruiting employees
- Premises
- Other, please indicate _____

35. Company is satisfied with the internationalization services it has used.

Strongly agree	Agree	Undecided	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

36. Here you can tell more about the internationalization services your company has used and experiences related to them.

Barents Link Center is an office building locating in Kostomuksha Russia. The mission of Barents Link Center is to promote cross-border cooperation and to serve companies in developing their business operation in the sphere of influence Barents Link corridor.

37. Has the company been aware of Barents Link Center locating in Kostomuksha?

- No
- Yes

38. Has the company used any services offered by Barents Link Center in Kostomuksha?

- No
- Yes

39. Does the company have need for internationalization services?

- No
- Yes

40. What kind of internationalization services would the company like to be offered? You can choose more than one option.

- Consulting
- Interpretation services

- Training
- Funding
- Recruiting employees
- Premises
- Advertising and marketing
- Information about the Russian market
- Other, please indicate, _____

41. What kind of services would company like to be offered by Barents Link Center?

42. What kind internationalization services would company like to be offered by the Regional Council of Kainuu?

APPENDIX 4: Frequencies of the survey results

Priority areas of the business sector identified in the Kainuu Regional program are listed below. In which field is your company operating?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bio-based economy, forestry, wood construction	2	11,8	11,8	11,8
Metal industry	5	29,4	29,4	41,2
Food sector (Agriculture and Industry)	2	11,8	11,8	52,9
Information and communication technologies (ICT) and electronics	2	11,8	11,8	64,7
Other	6	35,3	35,3	100,0
Total	17	100,0	100,0	

Company form

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Limited liability company	16	94,1	94,1	94,1
Other	1	5,9	5,9	100,0
Total	17	100,0	100,0	

Number of employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	1	5,9	5,9	5,9
2-5	5	29,4	29,4	35,3
6-20	6	35,3	35,3	70,6
21-50	4	23,5	23,5	94,1
More than 150	1	5,9	5,9	100,0
Total	17	100,0	100,0	

Revenue in 2013

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	100 000- 199 999	4	23,5	23,5	23,5
	200 000-499 999	3	17,6	17,6	41,2
	500 000- 999 999	1	5,9	5,9	47,1
	1 million- 2 999 999	5	29,4	29,4	76,5
	3 million -4 999 999	1	5,9	5,9	82,4
	5 -10 million	2	11,8	11,8	94,1
	More than 10 million	1	5,9	5,9	100,0
	Total	17	100,0	100,0	

Does the company have experience in foreign trade?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	3	17,6	17,6	17,6
	Yes	14	82,4	82,4	100,0
	Total	17	100,0	100,0	

Does the company have any interest to expand its operations into foreign markets?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	23,5	23,5	23,5
	Yes	13	76,5	76,5	100,0
	Total	17	100,0	100,0	

Where to the company is interested in expanding it operation**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$destination ^a	13	76,5%	4	23,5%	17	100,0%

a. Group

\$destination Frequencies

		Responses		Percent of Cases
		N	Percent	
The company is interested in expanding ^a	Scandinavian countries	10	25,6%	76,9%
	Central and Southern Europe	6	15,4%	46,2%
	Eastern Europe	5	12,8%	38,5%
	CIS countries	2	5,1%	15,4%
	Russia	10	25,6%	76,9%
	Asia	3	7,7%	23,1%
	China	1	2,6%	7,7%
	Africa	1	2,6%	7,7%
	Other	1	2,6%	7,7%
Total		39	100,0%	300,0%

a. Group

The current situation of the Russian trade

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	The company is conducting business operation in the Russian market	6	35,3	35,3	35,3
	The company has conducted business operation in the Russian market, but it has ended	1	5,9	5,9	41,2
	The company has tried to enter the Russian market, but has not been successful	1	5,9	5,9	47,1
	The company has considered expanding its business operation into the Russian market	5	29,4	29,4	76,5
	The company has not conducted any business operation in the Russian market, neither is considering it	4	23,5	23,5	100,0
Total		17	100,0	100,0	

Which market entry strategy did the company use?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Strategy ^a	7	41,2%	10	58,8%	17	100,0%

a. Group

\$Strategy Frequencies

		Responses		Percent of Cases
		N	Percent	
Market entry strategy ^a	Exporting	5	71,4%	71,4%
	Other	2	28,6%	28,6%
Total		7	100,0%	100,0%

a. Group

The share of revenue from Russian trade?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 %	2	11,8	28,6	28,6
	5 % -9 %	2	11,8	28,6	57,1
	10 % - 19 %	1	5,9	14,3	71,4
	20 % - 50 %	2	11,8	28,6	100,0
	Total	7	41,2	100,0	
Missing	System	10	58,8		
Total		17	100,0		

Market area in Russia?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Marketarea ^a	7	41,2%	10	58,8%	17	100,0%

a. Group

\$Marketarea Frequencies

		Responses		Percent of Cases
		N	Percent	
Market area in Russia ^a	Murmansk region	1	6,7%	14,3%
	Arhangelsk region	1	6,7%	14,3%
	The Republic of Karelia	5	33,3%	71,4%
	St. Petersburg and Leningrad region	4	26,7%	57,1%
	Moscow region	3	20,0%	42,9%
	Other	1	6,7%	14,3%
Total		15	100,0%	214,3%

a. Group

Company's relation with Russia?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Relationship ^a	7	41,2%	10	58,8%	17	100,0%

a. Group

\$Relation Frequencies

		Responses		Percent of Cases
		N	Percent	
Company's relation with Russia ^a	Cooperation with a Russian company in Finland	2	20,0%	28,6%
	Russian employees	1	10,0%	14,3%
	Russian customers	5	50,0%	71,4%
	Other	2	20,0%	28,6%
Total		10	100,0%	142,9%

a. Group

Company is keen on expanding its business operation into Russia

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	11,8	15,4	15,4
	Agree	7	41,2	53,8	69,2
	Strongly agree	4	23,5	30,8	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Company is willing to participate in networking or cooperative projects that aim to in-crease the trade between Finnish and Russian companies.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5,9	7,7	7,7
	Undecided	2	11,8	15,4	23,1
	Agree	8	47,1	61,5	84,6
	Strongly agree	2	11,8	15,4	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Company is willing to cooperate, for example start a joint venture with a Russian operator.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	17,6	23,1	23,1
	Undecided	7	41,2	53,8	76,9
	Agree	1	5,9	7,7	84,6
	Strongly agree	2	11,8	15,4	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Which market entry strategy would the company like to use when aiming to enter the Russian market?

Case Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$FutureMarketEntryStrategy ^a	13	76,5%	4	23,5%	17	100,0%

a. Group

\$FutureMarketEntryStrategy Frequencies

		Responses		Percent of Cases
		N	Percent	
Most favourable market entry strategy ^a	Exporting	9	52,9%	69,2%
	Strategic alliance	1	5,9%	7,7%
	Subcontracting	2	11,8%	15,4%
	Joint venture	2	11,8%	15,4%
	Other	3	17,6%	23,1%
Total		17	100,0%	130,8%

a. Group

The expected share of Russian trade in the total revenue after 5-10 years?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 %	3	17,6	23,1	23,1
	5 % -9 %	2	11,8	15,4	38,5
	10 % - 19 %	5	29,4	38,5	76,9
	20 % - 50 %	2	11,8	15,4	92,3
	More than 50 %	1	5,9	7,7	100,0
Total		13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Challenges that company has faced when conducting business operation in Russian market?

Case Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Challenges ^a	13	76,5%	4	23,5%	17	100,0%

a. Group

\$Challenges Frequencies

		Responses		Percent of Cases
		N	Percent	
Challenges related to Russian business ^a	Border formalities (customs, border guard, police)	8	20,5%	61,5%
	Logistics and traffic (in Finland, in Russia, on the border)	1	2,6%	7,7%
	Infrastructure in Russia	3	7,7%	23,1%
	Distribution channels in Russia	3	7,7%	23,1%
	Language and culture	5	12,8%	38,5%
	Delivery and payment terms	3	7,7%	23,1%
	Insecurity of the operation environment (corruption, protection money)	5	12,8%	38,5%
	Economic sanctions imposed by EU and Russia due to the Ukrainian crisis	4	10,3%	30,8%
	Company has not faced any problems when conducting business operation in the Russian market	3	7,7%	23,1%
	Other problems	4	10,3%	30,8%
Total	39	100,0%	300,0%	

a. Group

Has the company used internationalization services to enter Russian market?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	9	52,9	69,2	69,2
	Yes	4	23,5	30,8	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Which organizations offering services has the company used?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Serviceorganization ^a	4	23,5%	13	76,5%	17	100,0%

a. Group

\$Serviceorganization Frequencies

		Responses		Percent of Cases
		N	Percent	
Service organization company has used ^a	Kainuun Etu Ltd	2	40,0%	50,0%
	Finpro	1	20,0%	25,0%
	Other	2	40,0%	50,0%
Total		5	100,0%	125,0%

a. Group

What internationalization services has the company used?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$Internationalizationservi- ces ^a	4	23,5%	13	76,5%	17	100,0%

a. Group

Internationalization services Frequencies

		Responses		Percent of Cases
		N	Percent	
Internationalization services ^a	Consulting	2	50,0%	50,0%
	Funding	1	25,0%	25,0%
	Other	1	25,0%	25,0%
Total		4	100,0%	100,0%

a. Group

Company is satisfied with the internationalization services it has used.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	5,9	25,0	25,0
	Disagree	1	5,9	25,0	50,0
	Agree	2	11,8	50,0	100,0
	Total	4	23,5	100,0	
Missing	System	13	76,5		
Total		17	100,0		

Has the company been aware of Barents Link Center locating in Kostomuksha before?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	9	52,9	69,2	69,2
	Yes	4	23,5	30,8	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

Has the company used any services offered by Barents Link Center in Kostomuksha?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	23,5	100,0	100,0
Missing	System	13	76,5		
Total		17	100,0		

Does the company have need for internationalization services?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	7	41,2	53,8	53,8
	Yes	6	35,3	46,2	100,0
	Total	13	76,5	100,0	
Missing	System	4	23,5		
Total		17	100,0		

What kind of internationalization services would the company like to be offered?**Case Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$NeededServices ^a	6	35,3%	11	64,7%	17	100,0%

a. Group

\$NeededServices Frequencies

		Responses		Percent of Cases
		N	Percent	
Services that company needs ^a	Consulting	4	30,8%	66,7%
	Interpretation services	2	15,4%	33,3%
	Funding	1	7,7%	16,7%
	Advertising and marketing	2	15,4%	33,3%
	Information about the Russian market	3	23,1%	50,0%
	Other	1	7,7%	16,7%
Total		13	100,0%	216,7%

a. Group

APPENDIX 5: The correlation between the experience of the company in foreign trade and the willingness to expand business operation internationally

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Does the company have experience in foreign trade? * Does the company have any interest to expand its operations into foreign markets?	17	100,0%	0	,0%	17	100,0%

Does the company have experience in foreign trade? * Does the company have any interest to expand its operations into foreign markets? Crosstabulation

			Does the company have any interest to expand its operations into foreign markets?		Total
			No	Yes	
Does the company have experience in foreign trade?	No	Count % within Does the company have experience in foreign trade?	0 ,0%	3 100,0%	3 100,0%
	Yes	Count % within Does the company have experience in foreign trade?	4 28,6%	10 71,4%	14 100,0%
Total		Count % within Does the company have experience in foreign trade?	4 23,5%	13 76,5%	17 100,0%

APPENDIX 6: The correlation between the number of employees and the willingness to expand business operation into Russia

Number of employees * Company is keen on expanding its business operation into Russia

Crosstab

			Company is keen on expanding its business operation into Russia			Total
			Disagree	Agree	Strongly agree	
Number of employees	1	Count	0	1	0	1
		% within Number of employees	,0%	100,0%	,0%	100,0%
	2-5	Count	0	3	1	4
		% within Number of employees	,0%	75,0%	25,0%	100,0%
	6-20	Count	0	2	2	4
	% within Number of employees	,0%	50,0%	50,0%	100,0%	
	21-50	Count	1	1	1	3
		% within Number of employees	33,3%	33,3%	33,3%	100,0%
	More than 150	Count	1	0	0	1
		% within Number of employees	100,0%	,0%	,0%	100,0%
Total		Count	2	7	4	13
		% within Number of employees	15,4%	53,8%	30,8%	100,0%

APPENDIX 7: The correlation between the revenue of the company and the willingness to expand business operation into Russia

Revenue in 2013 * Company is keen on expanding its business operation into Russia

Crosstab

			Company is keen on expanding its business operation into Russia			Total
			Disagree	Agree	Strongly agree	
Revenue in 2013	100 000- 999	Count	0	1	1	2
		% within Revenue in 2013	,0%	50,0%	50,0%	100,0%
	200 000- 999	Count	0	3	0	3
		% within Revenue in 2013	,0%	100,0%	,0%	100,0%
	500 000- 999	Count	0	1	0	1
		% within Revenue in 2013	,0%	100,0%	,0%	100,0%
Total	1 million- 999 999	Count	0	2	2	4
		% within Revenue in 2013	,0%	50,0%	50,0%	100,0%
	5 -10 million	Count	1	0	1	2
		% within Revenue in 2013	50,0%	,0%	50,0%	100,0%
	More than 10 million	Count	1	0	0	1
		% within Revenue in 2013	100,0%	,0%	,0%	100,0%
Total		Count	2	7	4	13
		% within Revenue in 2013	15,4%	53,8%	30,8%	100,0%

APPENDIX 8: The correlation between the number of employees and the willingness to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies.

Number of employees * Company is willing to participate in networking or cooperative projects that aim to in-crease the trade between Finnish and Russian companies.

			Crosstab				
			Company is willing to participate in networking or cooperative projects that aim to in-crease the trade between Finnish and Russian companies.				
			Disagree	Undecided	Agree	Strongly agree	Total
Number of employees	1	Count	0	0	1	0	1
		% within	,0%	,0%	100,0%	,0%	100,0%
		Number of employees					
	2-5	Count	0	0	3	1	4
		% within	,0%	,0%	75,0%	25,0%	100,0%
	Number of employees						
	6-20	Count	0	2	1	1	4
		% within	,0%	50,0%	25,0%	25,0%	100,0%
		Number of employees					
	21-50	Count	0	0	3	0	3
		% within	,0%	,0%	100,0%	,0%	100,0%
		Number of employees					
	More than 150	Count	1	0	0	0	1
		% within	100,0%	,0%	,0%	,0%	100,0%
		Number of employees					
Total		Count	1	2	8	2	13
		% within	7,7%	15,4%	61,5%	15,4%	100,0%
		Number of employees					

APPENDIX 9: The correlation between the revenue of the company and the willingness to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies.

Revenue in 2013 * Company is willing to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies.

			Crosstab				
			Company is willing to participate in networking or cooperative projects that aim to increase the trade between Finnish and Russian companies.				
			Disagree	Undecided	Agree	Strongly agree	Total
Revenue in 2013	100 000-199 999	Count	0	0	1	1	2
		% within Revenue in 2013	,0%	,0%	50,0%	50,0%	100,0%
	200 000-499 999	Count	0	0	3	0	3
		% within Revenue in 2013	,0%	,0%	100,0%	,0%	100,0%
	500 000-999 999	Count	0	0	1	0	1
		% within Revenue in 2013	,0%	,0%	100,0%	,0%	100,0%
	1 million- 2 999 999	Count	0	2	1	1	4
		% within Revenue in 2013	,0%	50,0%	25,0%	25,0%	100,0%
	5 -10 million	Count	0	0	2	0	2
		% within Revenue in 2013	,0%	,0%	100,0%	,0%	100,0%
	More than 10 million	Count	1	0	0	0	1
		% within Revenue in 2013	100,0%	,0%	,0%	,0%	100,0%
Total		Count	1	2	8	2	13
		% within Revenue in 2013	7,7%	15,4%	61,5%	15,4%	100,0%

APPENDIX 10: The correlation between the number of employees and the willingness to cooperate, for example start a joint venture with a Russian operator.

Number of employees * Company is willing to cooperate, for example start a joint venture with a Russian operator.

Crosstab

		Company is willing to cooperate, for example start a joint venture with a Russian operator.				Total
		Disagree	Undecided	Agree	Strongly agree	
Number of employees	1	Count 0	1	0	0	1
		% within Number of employees ,0%	100,0%	,0%	,0%	100,0%
	2-5	Count 0	2	0	2	4
		% within Number of employees ,0%	50,0%	,0%	50,0%	100,0%
	6-20	Count 1	2	1	0	4
	% within Number of employees 25,0%	50,0%	25,0%	,0%	100,0%	
	21-50	Count 1	2	0	0	3
	% within Number of employees 33,3%	66,7%	,0%	,0%	100,0%	
	More than 150	Count 1	0	0	0	1
	% within Number of employees 100,0%	,0%	,0%	,0%	100,0%	
Total	Count 3	7	1	2	13	
	% within Number of employees 23,1%	53,8%	7,7%	15,4%	100,0%	

APPENDIX 11: The correlation between the revenue of the company and the willingness to cooperate, for example start a joint venture with a Russian operator.

Revenue in 2013 * Company is willing to cooperate, for example start a joint venture with a Russian operator.

Crosstab

			Company is willing to cooperate, for example start a joint venture with a Russian operator.				Total
			Disagree	Undecided	Agree	Strongly agree	
Revenue in 2013	100 000-199 999	Count % within Revenue in 2013	0 ,0%	1 50,0%	0 ,0%	1 50,0%	2 100,0%
	200 000-499 999	Count % within Revenue in 2013	0 ,0%	2 66,7%	0 ,0%	1 33,3%	3 100,0%
	500 000-999 999	Count % within Revenue in 2013	0 ,0%	1 100,0%	0 ,0%	0 ,0%	1 100,0%
	1 million-2 999 999	Count % within Revenue in 2013	1 25,0%	2 50,0%	1 25,0%	0 ,0%	4 100,0%
	5 -10 million	Count % within Revenue in 2013	1 50,0%	1 50,0%	0 ,0%	0 ,0%	2 100,0%
	More than 10 million	Count % within Revenue in 2013	1 100,0%	0 ,0%	0 ,0%	0 ,0%	1 100,0%
	Total	Count % within Revenue in 2013	3 23,1%	7 53,8%	1 7,7%	2 15,4%	13 100,0%

APPENDIX 12: The correlation between the number of employees and the need for internationalization services

Crosstab

		Does the company have need for internationalization services?		Total
		No	Yes	
Number of employees	1	Count 1 100,0%	Count 0 ,0%	Count 1 100,0%
	2-5	Count 2 50,0%	Count 2 50,0%	Count 4 100,0%
	6-20	Count 1 25,0%	Count 3 75,0%	Count 4 100,0%
	21-50	Count 2 66,7%	Count 1 33,3%	Count 3 100,0%
	More than 150	Count 1 100,0%	Count 0 ,0%	Count 1 100,0%
Total	Count 7 53,8%	Count 6 46,2%	Count 13 100,0%	

APPENDIX 13: The correlation between the revenue of the company and the need for internationalization services

Crosstab

			Does the company have need for internationalization services?		Total
			No	Yes	
Revenue in 2013	100 000- 199 999	Count % within Revenue in 2013	1 50,0%	1 50,0%	2 100,0%
	200 000-499 999	Count % within Revenue in 2013	1 33,3%	2 66,7%	3 100,0%
	500 000- 999 999	Count % within Revenue in 2013	1 100,0%	0 ,0%	1 100,0%
	1 million- 2 999 999	Count % within Revenue in 2013	1 25,0%	3 75,0%	4 100,0%
	5 -10 million	Count % within Revenue in 2013	2 100,0%	0 ,0%	2 100,0%
	More than 10 million	Count % within Revenue in 2013	1 100,0%	0 ,0%	1 100,0%
	Total	Count % within Revenue in 2013	7 53,8%	6 46,2%	13 100,0%

APPENDIX 14: The correlation between the share of Russian trade in the total revenue and the need for internationalization services

Crosstab

			Does the company have need for internationalization services?		Total
			No	Yes	
The share of revenue from Russian trade?	Less than 5 %	Count % within The share of revenue from Russian trade?	2 100,0%	0 ,0%	2 100,0%
	5 % - 9 %	Count % within The share of revenue from Russian trade?	2 100,0%	0 ,0%	2 100,0%
	10 % - 19 %	Count % within The share of revenue from Russian trade?	1 100,0%	0 ,0%	1 100,0%
	20 % - 50 %	Count % within The share of revenue from Russian trade?	0 ,0%	2 100,0%	2 100,0%
Total		Count % within The share of revenue from Russian trade?	5 71,4%	2 28,6%	7 100,0%