

**Motives for and barriers against entering the
Russian seafood market.**

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Case study of four Norwegian companies.



MSc. Thesis in
International Fisheries Management
by

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Abstract

Current paper is devoted to consideration of main aspects of internationalization process of the firm. The international marketing literature and findings of previous studies in the area construct theoretical framework for the conceptual model, worked out for the purposes of current research. Empirical study investigates motives for entering the Russian seafood market, perceived barriers and choice of entry mode by Norwegian exporters. It consists of study of four cases from Norwegian seafood industry and interviews with key informants.

Results illustrated that perceived barriers against entering the Russian seafood market are outweighed by the main overall stimuli for entering it – growing potential of the market, based on rapid development of retailing sector in Russia and stable demand for seafood among consumers. Such motivation has proactive nature. In the other words, entry is driven by perceived attractiveness of the Russian seafood market.

On the modern stage of internationalization of Norwegian seafood companies to Russia the main perceived problem is weak and unstable legal environment in Russia. It's pointed out as the most important factor, which stipulates preference of exporting as organizational mode for work in Russia over other more risky modes. Further, it was found out that firms use *direct* exporting. It means that seafood trade with Russia occurs via the Russian importers.

On the basis of obtained findings there were worked out implications for Norwegian seafood industry as well as for the Russian authorities.

Keywords: *seafood, internationalization, motives, barriers, entry mode, Norwegian exporters, Russian market.*

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1. Introduction

The main purposes of introduction chapter are to provide brief background, taking into consideration the urgency of the research topic. Besides, the overview of basic objectives of this study and brief discussion of research questions are given here. The structure of the paper is presented in the final part of the introductory chapter.

1.1. Background

At the end of the 20th - beginning of the 21st centuries the interest to business internationalization and the organizational importance of this process were realized by various types of companies in different parts of the world. The concept of international trade is tightly connected with the globalization in commercial sphere, which is associated with new opportunities as well as with new challenges for the companies. This research area is steadily winning the attention of researchers worldwide. Globalization in general is “the process where some spheres of society life in one country are becoming steadily integrated into the spheres of society lives in the other countries” (Solberg, 2005:20). So, it means that events in some particular country influence the development in the other countries. There is numerous amount of various literature pieces on the topic of globalization and international trade, which are rather complex and multi-definitive processes (Hodne and Rosendahl, 2000; Sheth and Parvatiyar, 2001; Albaum, Strandskov and Duerr, 2002). The topic of internationalization of the companies has become in the area of interest among researchers in economics sphere, particularly from the point of view of studying development of international strategies.

Large amount of literature of all levels is devoted to the international behaviour of a firm. Most of it was written by American researchers, who consider theoretical aspects of internationalization strategy and implications of them for international practices of chosen companies (Agarwal and Ramaswami, 1992; Ha, Karande and Singhapakdi, 2004). Until recent time it has been lack of researches on the internationalization of European companies, in particular (Arnold, Chadraba and Springer, 2001). Despite the recent appearance of increasing amount of publications in this area, there are still interesting niches to be studied, especially on the topic of internationalization to the countries with *economics in transition*, or, in the other words, *emerging countries* (Arnold, Chadraba and Springer, 2001).

After breakdown of Soviet Union with its socialistic political system and planned economics, in December of 1991 the new country on the political world map - Russian Federation (Russia) - appeared. Nowadays, it is the country with economy in transition, what means that Russia can't be called the country with market economy yet, but it is on the way toward it. The new political order (democracy) brought the changes not only in political sphere, but transition also occurs in economy of the country that is gradually transforming into market economy by strengthening market mechanisms through liberalization, stabilization and the encouragement of private enterprises. According to Tøndel (2001:7), Russia is "facing the introduction, not reinroduction, of market economy and liberal democracy". It means that in socialistic Soviet Union the market economy was never present and it's still quite long way for Russia to adopt all the necessary mechanisms and principles. That's why it's problematic to completely implement the theories about internationalization in the Western European countries for planning entering the Russian market. After opening it's economics for the foreign countries Russia represented many market opportunities, which often cause the incentives of foreign companies to do business there (motivation for entry), but at the same time it's necessary to consider and analyze some negative factors (barriers), complicating the process of entering the Russian market or preventing it at all.

After the collapse of Soviet Union, when the Russian government started opening the country to foreign markets, the process of co-operation between two neighboring countries - Norway and Russia - got the rapid development. It was tangible in many spheres, such as environmental issues, oil politics, management of joint marine areas and resources in Barents Sea, etc. The co-operation of Norway and Russia in economics sphere is especially developed between Northern part of Norway (Nord-Norge) and North-West area of Russia, which is "one of few stable and at the same time resource rich regions of the country." (Kjølborg, 1997:357) According to Kjølborg (1997), in Northern Norway Russia is considered to be important economic partner. Despite incomplete trade liberalization and existence of some barriers against entering the Russian market many Western companies show their interest in developing their businesses in Russia. Nowadays, more and more Norwegian fish companies consider Russia to be attractive market for exporting and even investments. The attractiveness of this market for the Norwegian companies is based on the geographical closeness, market size, growing political and economical stability, increasing demand for high quality products (Roudchine, 2002). However, there are many threats, perceived by Western businesses, as far as Russia, in general, is still in the early stage

of transition, and perceived risks are considerable and diverse (Arnold, Chadraba and Springer, 2001). According to previous researches, there are barriers against entering the Russian market, including tariffs and import regulations (Tøndel, 2001; Roudchine, 2002; Dahlen, Forsman and Leven, 2003). Russia, which historically was closed from the rest of the world, is still “the mysterious and little studied market” (Voldnes, 2004:15).

The tendency of increasing the volumes of co-operation between two countries can be well seen in the trade of fish and seafood. Norwegian exports of fish and seafood to Russia are increasing and according to the information from Norwegian Export Council for Seafood (Eksportutvalget for fisk), in 2004 Russia became the 3rd most important market for Norwegian seafood. Already in 2005 Russia became the largest importer for the Norwegian salmon and pelagic fish (EEF, 2005). Moreover, decline in fish supply from Russian own fleet assists the growing significance of seafood imports.

There are positive trends in the consumption of fish products by the Russians. They can be explained by the wish of the Russian consumers to adopt the healthy lifestyle. For example, in two biggest cities of Russia – Moscow and Saint-Petersburg recently there has been the enormous growth in the consumption of Japanese sushi - the food, which is considered to be highly nutritious and healthy (EEF, 2005). Besides, consumers are keen on purchasing imported goods, especially in the food sector. These trends are fortified by increasing purchase power of the Russian consumers, that is, in particular, reflected, in the tendency to eat in restaurants more often (Voldnes, 2004). The other positive trend, associated with the potential for Norwegian fish, is fast development of retail sector in Russia that is reflected in the growing number of super- and hypermarkets (Nilssen, 2005).

As the previous researches show, the success of operations in the foreign market is mainly dependant on the reasonable entry mode, chosen by the company to enter the market (Kim and Hwang, 1992; Shama, 2000). Choice of entry mode is the central decision in the process of company's internationalization (Anderesen, 1997). Generally speaking, the entry mode can be assumed as “the walk out into the unknown” (Johanson and Vahlne, 1992:9). It's even more applicable, when it concerns internationalization to the emerging market. The challenge is related not to the attempt to find out the most efficient entry mode to Russia, but to consider how the combination of company's attitudes toward the opportunities and threats, which Russia represents, influences the decision of the Norwegian seafood company on the degree of involvement in the Russian market.

1.2. Purposes of the study

The focus of this thesis is on consideration of main aspects of *internationalization process of the firm, such as motivation for entering a foreign market, perceived barriers associated with host country and decision on the choice of entry mode*. The following definition of *internationalization process* is employed: from the point of view of individual company, internationalization is the developmental process of increasing involvement of the firm in international business (Young, 1989). Therefore, the global level of internalization is left beyond the scope of this study.

The main purpose of the project can be formulated as considering the strategic choices of Norwegian fish companies, which took decision to enter the Russian market. The current research is aimed at analyzing international behaviour of the individual Norwegian seafood firms that internationalized to the Russian market, particularly to obtain the deeper understanding of the entry modes, used by them for doing business in Russia. The overall objective of the project can be divided into the range of the following research questions:

1. What are the main motives for fish export from Norway to Russia?
2. Which main “external barriers” (based on the Russian market) are perceived by Norwegian fish companies?
3. Which entry strategies do Norwegian seafood companies choose when entering Russia?

The empirical part of the study is based on case studies of Norwegian seafood companies that have already entered Russia. But obtained in the empirical research findings can be used by the companies, which are considering entry to the Russian market.

Speaking about implications of the results of this study, there are four possible directions. First, these results can be useful for Norwegian fish companies that have already established activity in Russia from the point of view of improving the knowledge about socio-cultural characteristics of this country. Secondly, they (results) can be used by Norwegian fish companies on the stage of making decision about entering Russia. Thirdly, the Russian national and local authorities can utilize findings of the empirical study for developing the strategy of co-operation with Norway and improving the legislation to increase attractiveness of Russia for Norwegian investments. Finally, this research is the basis for carrying out further deepened inquiries on topic of international behavior of the firm. It can contribute to the existing theory on internationalization process of the company, particularly in Eastern Europe.

1.3. Structure of the paper

The subsequent parts of the thesis will be structured as follows:

Chapter two presents the theoretical framework for the study. It gives the overview of the literature on relevant theories and models, concerning the field of current research. It's concluded by development of the conceptual framework for entering the Russian seafood market.

Chapter three describes methodology, which was used to obtain the data for the research.

Chapter four represents results of the empirical study.

Chapter five represents conclusive remarks. Besides, implications for management of entry mode and existing theory, as well as suggestions for future research, are given in this chapter.

2. Theoretical framework

The previous chapter gave the overview of specific research questions connected with the main purposes of current study. In this chapter theories, relevant to the research questions, are considered. This part of the paper is based on reviewing academic literature as well as previous studies on the process of company's internationalization. The chapter starts with overview of motivations for going international, that corresponds to the first research problem. Then main classifications of perceived barriers are presented, that corresponds to the second research problem. Next, different approaches to the entry mode decision choice will be presented, as well as the models, explaining the choice of specific entry strategy by the company. Finally, conceptual framework for entering the Russian seafood market and the questions connected with this entry will be discussed.

2.1 Introduction

It was proved earlier that for each individual company the process of internationalization includes several stages, which are presented in Figure 2.1.

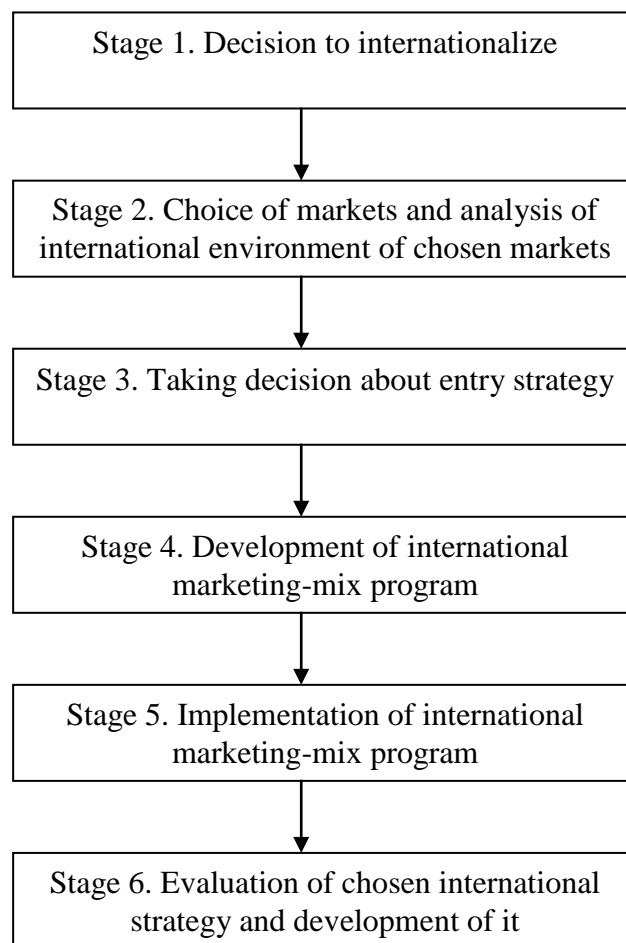


Figure 2.1 Internationalization process of a firm (Adapted from Dahlen, Forsman and Leven, 2003).

The current study is aimed at analysis of stage 1, stage 2 and stage 3 of the internationalization process. The first stage includes the motivation of the company for internationalization. The second stage is interesting, because it deals with scanning of environmental factors of chosen country, which include the barriers against entering its market. And the third stage – choice of entry mode - is influenced by the results, obtained at the previous stages. Therefore, consideration of international behaviour of Norwegian fish companies at these stages corresponds with the determined purposes of the study.

2.2 Motives for internationalization

There can be many reasons for internationalization, and the answer to the question “what drives the business to go international?” depends on those, who is asked. Therefore, according to Hodne and Rosendahl (2000), it’s necessary to divide the problem into two ones: first, the significance of internationalization from the point of view of international economy and, secondly, the importance of internationalization from the point of view of the certain company. International behavior theories are aimed to explain why the particular firm is engaged in international activities. In the other words, they focus on the firm’s motives and international strategies, chosen by particular companies.

Albaum, Strandskov & Duerr (2002:46) argue that initial driving force for a company’s internationalization is the wish “to utilize and develop its resources in such a way that it’s (company’s) short-term and/or long-term economic objectives are served”. It means that motives for internationalization should be tightly connected with a firm’s goals. According to Albaum, Strandskov & Duerr (2002), there is only one primary incentive – to make a profit. But in addition to this overall objective, there can be the specific ambitions, which determine a company’s commitment to entering the foreign market (s). The amount and significance of various stimulus is specific for each company and the different classifications of such motives were developed in the academic literature on the internationalization process of a firm (Hodne & Rosendahl, 2000; Albaum, Strandskov & Duerr, 2002; Bennett & Blyth, 2002; Solberg, 2005).

Hodne and Rosendahl (2000) argue that the most important motives for a Norwegian firm’s internationalization can be the ones, shown in Table 2.1

Table 2.1 Motives for a firm's export operations

<ul style="list-style-type: none"> ▪ Increased competition in the home-country market ▪ Decreased demand for the product in the home-country market ▪ Dumping press from foreign exporters in the home-country market ▪ Utilization of full production capacity ▪ Utilization of a firm's competitive advantages ▪ Belief that the problems in the home-country market can be lost by means of internationalization ▪ Belief that entering new foreign markets can give increased profits ▪ Wish to obtain international influence ▪ Wish to utilize new opportunities and cope with challenges, existing in the foreign markets 	<ul style="list-style-type: none"> ▪ Overproduction ▪ Increasing supply in the host-country market ▪ Risk spreading ▪ New actors in the home-country market ▪ Following the customers ▪ Diversification ▪ Wish to utilize possible different lifecycle phases of the same product in the different markets ▪ Prestige ▪ Growing demand for the product in the foreign country (ies) ▪ Other possible export motives
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Source: Hodne, T. & Rosendahl, T. (2000). *Innføring i internasjonal markedsføring. Globalisering: analyse, strategi og planlegging*. Oslo: Cappelen Akademisk Forlag.

Albaum, Strandskov and Duerr (2002) present the classification of most widespread motives for exporting, which are represented in the Table 2.2.

Table 2.2 Classification of export motives

	Internal	External
Proactive	Managerial urge Marketing advantages Economies of scale Unique product/technology competence	Foreign market opportunities Change agents
Reactive	Risk diversification Extend sales of a seasonal product Excess capacity of resources	Unsolicited orders Small home market Stagnant/declining home market

Source: Albaum, G., Strandskov, J. & Duerr, E. (2002). *International marketing and export management*. England: Pearson Educated Limited.

The difference of this classification is that it organizes the motives according to two criteria:

1. Point of originating of the motives: within a company (*internal*) or initiated from the firm's environment (*external*).
2. The nature of export activity of the company: *proactive*, which is based on the firm's interest to explore new market opportunities and/or exploiting unique competencies, or *reactive* behavior of the company, when it responds to internal or external factors push factors by internationalizing its operations and, therefore, reacts passively (Albaum, Strandskov & Duerr, 2002).

It's possible to notice, that some motives overlap with the stimulus, which were considered in the classification of Hodne and Rosendahl (2000). Some of these motives are obvious, but several ones require additional brief explanation.

Increasing supply in the host country

Some companies can consider foreign market to be attractive for entering, because the other firms, which have already penetrated it, can show the good results of their activity (increased sales volumes, profits etc.) Thus, this new company, which decides to enter the foreign market, thereby, exposes itself to the competition in the host market that despite good profitability doesn't tolerate more players (Hodne & Rosendahl, 2000).

Dumping press from the foreign exporters in the home market

Foreign companies consider the Norwegian market to be attractive because of the high purchase power of its customers. They enter to the Norwegian market with lower priced offers due to various reasons (cheaper labor force and/or raw materials) (Hodne & Rosendahl, 2000). Therefore, the competition in home market increases, what makes some firms go international.

Risk spreading

Folk proverb says that it's dangerous "to put all eggs in one basket". Companies that have the big market share, possibly, discover that further increasing of it costs so much and can be so risky that they (companies) start searching new expansion areas. With the expansion a firm can keep eye on the market shares in the home market as

well as enjoy the expansion potential represented by the foreign market(s) (Hodne & Rosendahl, 2000).

Utilization of full production capacity

Many firms want to rationalize, investing into the new technology. Such investments can be costly and in order to operate profitably a company needs complete utilization of new production capacities. There can be the situation, when the company produces more, than the home market can consume. Therefore, exporting or some other form of international activity can be the important alternative, when the firm considers new investments and profitability of them (Hodne & Rosendahl, 2000).

Utilization of a firm's competitive advantages

In the home market some companies can operate better, than the others, due to certain competitive advantages, which they would like to utilize during the international expansion. The sources of such competitive advantages can be the following ones (Hodne & Rosendahl, 2000):

- Cheap raw materials
- Know-how (improved technology, production processes)
- Patents and copyrights (possibly, as the result of know-how)
- Design
- Quality (i.e., perceived quality)

Belief that the problems in the home-country market can be solved by means of internationalization

Sometimes a firm due to some reasons, for example, due to bad marketing process in the home market, has got problems and perceives internationalization as the way to cope with them. There is one “trap” with it: it's extremely problematic to “export itself” from the troubles in home-country market, because, there is the consideration about necessity of a firm's good reputation in the home country before moving international. Moreover, the company should have good economic position to tolerate the requirements for resource base, which international marketing imposes (Hodne & Rosendahl, 2000).

Wish to obtain international influence

For many firms home market can be too small in order to build up the economic resources and know-how, in order to be able to practice the influence on the market and

affect the development through new technology or standards, which can occupy the dominating position in the foreign markets too. In the international literature this strategy is defined as “leveraging key success factors”. The strategy assumes the out-competing both national and international competitors and obtaining the dominating position in all the markets, a firm wish to work in. In order to execute this strategy a company should have the strong starting point in form of patents, copyrights, besides, the stable economic position in the home-country market is necessary as well as international market access via loyal distributors or buying-up (wholesale) of international companies (Hodne & Rosendahl, 2000).

Managerial urge

Some researches on the motivation for internationalization pointed out, that leadership in a firm is a critical and decisive factor for entering the foreign market and developing successful activity there (Toften, 2004). Managerial urge reflects the desire and commitment of managers towards exporting and other types of internationalization. Albaumb, Strandskov & Duerr (2002) underline that choice of export mode depends on the decision maker's (manager's) perceptions of the company's capabilities to enter the foreign market as well as expectations, related to the chosen host market.

Economies of scale

This definition combines all the factors, which cause the average cost of producing the commodity to fall as output of the commodity rises (Bannock, Baxter & Davis, 1998). The sources of economies of scale within a company can be: production, distributions, advertising and other areas. Hence, entering foreign market can result in the decreasing costs of product production. Usually, the scale effects are associated with the size of a company: big corporations naturally enjoy the effects of economies of scale due to big production volumes. However, it's also possible for the smaller firms by means of exporting that increases sales that, in turn, allows increase the total amount of production (Roudchine, 2002).

Change agents

In some countries the big governmental support to export exists. Major export promote activities include giving loans, providing insurance facilities, publishing basic market data on the foreign markets. In Norway main organization, supporting international activities of seafood companies, is Norwegian Export Council for Seafood

(Eksportutvalget for fisk), which, in addition, provides the information regarding foreign market opportunities (Albaum, Strandskov & Duerr, 2002).

Extend sales of seasonal products

By selling seasonal products in the countries, where seasons are opposite to those in home country, the greater stability in sales and, therefore, cash flow, can be achieved (Albaum, Strandskov & Duerr, 2002).

Unsolicited foreign orders

It's typical motive, which reflects the passive behavior of a firm. In this case the stimuli for entering foreign market originate not within the company, but from the environment in the form of orders from foreign companies and/or final consumers (Albaum, Strandskov & Duerr, 2002).

According to Solberg (2005), the most important motives, which drive the internationalization of Norwegian companies, are as follows:

- Wish of a firm to utilize own unique competence in the bigger market
- Foreign market offers opportunities for better profitability
- Norway is perceived as too small market
- A firm considers internationalization to be exciting

As it's seen, the stimuli for entering international markets are diversified. Usually, there are several motives, which cause a firm to become involved into internationalization. Analysis of reasons, which lie in the basis of decision of Norwegian seafood companies to enter the Russian market, is one of the tasks of current empirical study.

2.3 Barriers against internationalization

In previous section the review of basic motivation for internationalization of a company was presented. The other important issue in the process of making decision about entering foreign markets is barriers perception. Barriers against internationalization assume all the factors that can influence negatively the planned internationalization to a market. Whether these barriers are real or just perceived to exist can be found out just empirically (Albaum, Strandskov & Duerr, 2002). In any case, the companies, which take decision to enter the foreign market, have to be aware of the specific hindering factors in order to plan their entry strategies and international marketing programs. In the end, it makes no difference, if the barriers are real or just

imaginable, as far as managers of the firms make decision on the basis of perception the situation that they face (Albaum, Strandskov & Duerr, 2002).

The analysis of the obstacles is important, because they affect the behavior of a firm at different stages of internationalization process, particularly, at the stage of choosing entry mode.

2.3.1 Controllable vs. uncontrollable barriers

There is big amount of perceived barriers, which are dependent on the country and market (Roudchine, 2002).

Table 2.3 Dimensions of export barriers

Barrier	Dimension of export barriers					
	Internal controllable dimension 1	Foreign controllable dimension	non-	Internal controllable dimension 2	Local controllable dimension	non-
Communication with foreign unit	X					
Lack of export training (experiences and language skills)	X					
Lack of market information	X					
Controlling international activities	X					
Documentation requirements	X					
Foreign government attitudes		X				
Foreign public attitudes		X				
Trade barriers (tariffs, quotas)		X				
Arranging transportation, packaging, etc.				X		
Providing services				X		
Higher than domestic risk				X		
Financing sales						X
No assistance from home government						X

Source: Albaum, G., Strandskov, J. & Duerr, E. (2002). *International marketing and export management*. England: Pearson Educated Limited.

Table 2.3 above illustrates the results of empirical research on the dimensions of export barriers, perceived by Danish exporters (Albaum, Strandskov and Duerr, 2002).

In aforementioned classification all the barriers, faced by exporters, are divided according to possession to one of four dimensions:

1. *Internal controllable dimension 1* includes the obstacles, originating within a firm. Therefore, company can control them and cope with them, improving the working procedures.
2. *Foreign non-controllable dimension* involves the barriers, associated with host country.
3. *Internal controllable dimension 2* represents the obstacles, which are originating within company and are already connected with its international activities.
4. The last, but not least is *local non-controllable dimension*, dealing with barriers, associated with home country.

2.3.2. Mixed classification

The review of the academic literature on the topic (Young, 1989; Johansson, 1997; Bennett & Blyth, 2002; Marshall, 2003) allowed present the classification of barriers against entering foreign market, where all the obstacles are divided into the following categories:

1. Tariff barriers (e. g. import tariff)
2. Non-tariff barriers (e. g. import quotas, export subsidies, national standards, etc.)
3. Socio-cultural characteristics of the host-country as the source of barriers (e.g. language in the target market, stereotypes about cultural characteristics of the foreign country, etc.)
4. Government regulations (for example, regulation, limiting distribution opportunities or opportunities for advertising etc.)
5. Other barriers (restricted access to manufacturing technology and processes, distribution channels and suppliers)

Tariffs

The tariff is a tax or customs duty, imposed on goods, crossing international frontiers (Bennett & Blyth, 2002). It can be enforced on ad valorem basis (as a certain percentage of value of imported commodities) or on the specific basis (as money amount per unit). Import duties are generally applied for the purpose of carrying out a

particular economic policy, and in this context, serve the following purposes (Bannock, Baxter & Davis, 1998):

- To reduce the overall level of imports, making them more expensive relative to their home-produced substitutes.
- To counter the practice of dumping by raising the import price of the dumped commodity to its economic level.
- To react against restrictive measures, imposed by other countries.
- To protect an infant industry until it is sufficiently well established to compete with the more developed industries of the other countries.
- To protect country's key industries, such as agriculture, without which the economy would be vulnerable in time of war.

At present, there are three types of taxes for imports to Russia, which are established in the Customs Code of the Russian Federation, introduced in 2004 (UK trade&Investment Report, 2004):

- import duty, which is calculated as the percentage of the customs value of the goods.
- excise duty, which is imposed on some duties, such as alcohol, tobacco products, gasoline.
- value added tax (VAT), which is calculated as a percentage of customs value plus excise duty in the case of excisable goods. The standard VAT rate is 18%, although the preferential VAT rate (10%) was introduced on the 1st of January, 2005 for the range of goods, including fish and seafood (Dontsova, 2005).

The Russian Government proceeds in improving the legislative framework to combat the customs fraud and improve customs collection, and while there were some improvements in this direction, still the inconsistency in the interpretation of customs value by different participants is leading to some abuses (Country profile: Russia, 2001).

Non-tariff barriers

Non-tariff barriers are restrictions, placed on trade, that don't involve a financial penalty (Bennett & Blyth, 2002). They are similar to the tariff barriers, because they also represent the regulations affecting export of goods to certain market. However, these rules have more administrative nature and are often imposed by host-country government to protect the domestic market. Main types of non-tariff barriers, according to Marshall (2003), as follows:

- Import quotas – restrictions on the maximum volume of product that can be imported.
- National standards – countries may specify use of a particular national standard that is unfamiliar to exporters, placing them at a disadvantage.
- Voluntary export restraints – these are usually targeted at a specific country and prevent companies from exporting certain products to that market.

All the commodities, imported to Russia, should be certified by the Russian standards authority - Gosstandart. The mandatory certificate, required for imported goods, is Certificate of Conformity - GOST R (UK Trade&Investment Report, 2004). The Russian Government doesn't recognize some international standards, such as ISO - 9000 system, instead the aforementioned Certificate of Conformity is required (UK Trade&Investment Report, 2004). However, many commodities, for instance, food products should have the additional documentation, such as the Hygienic Conclusion Certificate, issued by the Russian State Hygiene Authority, Sanepidnadzor (UK Trade&Investment Report, 2004).

According to the GAIN Report of USDA Foreign Agricultural Service (2005), all imports of fish and seafood products to Russia require the following certificates: Certificate of Origin (in English), Health Certificate (in English and Russian), Packing List, which must include the quantity of fish and seafood products. The precise list of required documentation with explanations for the imports to Russia and some other technical help for Norwegian fish exporters can be obtained via Mattilsynet – the Norwegian analogue of the Russian Sanepidnadzor.

The other issue that can discourage interest of Western exporter for doing business in Russia is burdensome labeling process. In addition to the requirements for certification, imported food goods have to be labeled into Russian language (UK Trade&Investment Report, 2004). The information that should be on the label, is dependent on the product, but common requirements for food products concern the indication of nutrition value, contain of ingredients, information about food safety in the other words, some technical information. Due to often changes in the requirements for the labeling it can be useful to employ the help of local partner (UK Trade&Investment Report, 2004). The most often complaints from Western and American exporters, dealing in Russia, concern the unclear labeling format for imported goods (GAIN Report, 2005). Despite the absence of certain format, labeling procedures for imports in Russia require Russian language label for each pack of product that is going to be sold in the Russian market. It's possible to do after arrival to

Russia, however such tactic is worse as far as labeling should be done within customs warehouse, increasing storage costs for the exporter (GAIN Report, 2005).

Socio-cultural characteristics of the host country as possible source of barriers

Culture is a set of beliefs, values, and norms shared among a group of individuals, usually within the geographic setting (Brouthers, Brouthers and Nakos, 1998). Because of the cultural differences sometimes it's difficult to interact with members from the other countries. It's impossible to plan and develop culture, moreover, it can't be controlled by a company. Culture defines the behaviour of people in certain country and their reactions for the various situations. Stereotypes about the cultural characteristics of certain country can encourage or, on the opposite, prevent a firm's attempts to enter this country with its business activities.

In some researches that deal with influence of cultural characteristics of the host country on the entry mode of a foreign firm, the concept of "*psychic distance*" is considered (O'Grady & Lane, 1996; Johanson & Vahlne, 2003; Whitelock & Jobber, 2004). This concept combines "the total sum of barriers created by geographical separation, cultural disparities between the home country and the host country, and problems of communication resulting from differences in social perspectives, attitudes and language" (Whitelock & Jobber, 2004:1440). It includes the indicators, as follows (O'Grady & Lane, 1996):

- Level of education in a host country
- Level of economic development in the foreign country
- Difference between levels of economic development in home and host countries
- Difference in levels of education between home and host countries
- Difference in culture and local language
- Difference in business language

Aforementioned researchers argue that the factor "*psychic distance*" plays the essential role in the process of making decision about entering foreign market and even choice of entry mode. For example, companies, while entering "psychically close" foreign markets are showing more commitment to the foreign operations and choose more risky entry modes. Introduction of the idea of "*psychic distance*" allowed broaden considered amount of factors, influencing choice of entry mode, but there is also space for criticism. The research on "*psychic distance*" influence doesn't deal with consideration of influence of *perceived "psychic distance"* in the process of company's decision-making.

Culture is also in the basis of communication processes, and especially understanding business culture in the host country is one of key success factors for a company, planning its activity in this country. The main cultural issues, affecting communication between a firm and host market, are shown in the Table 2.4.

Table 2.4 Cultural aspects, affecting communication process between entering firm and host market actors

<ul style="list-style-type: none"> ▪ Written conventions (dates, titles, etc.) ▪ Weights, measures and currencies ▪ Religious beliefs and practices ▪ Mealtimes and dietary considerations ▪ “Personal space” and “comfort zones” ▪ Attitudes to work/personal life ▪ Attitudes to family/friends ▪ Customs and traditions ▪ Use of leisure time ▪ Greeting and leave-taking ▪ Small talk ▪ Public holidays ▪ Giving and receiving gifts ▪ Telephone protocols ▪ Hours of work ▪ Attitude to punctuality ▪ Gestures ▪ Body language ▪ Advertising practices ▪ Use of images ▪ Dress code ▪ Gender roles ▪ Use of color

Source: Marshall, C. (2003). *Mastering international trade*. United Kingdom: Palgrave Macmillan Ltd.

Russians, for example, prefer personal contacts before making deals. Russian business culture places great emphasis on individual relationships (UK Trade&Investment report, 2004). Therefore, business trip to Russia can be of crucial importance for the foreign firm in terms of establishing business links in the Russian market. Besides, it's always necessary to reconfirm appointments with Russian businessmen prior to arrival to Russia (UK Trade&Investment Report, 2004).

Government regulations

This dimension represents barriers that can't be controlled by a company, and it just has “to adapt to them” (Johansson, 1997:160). On the stage of making decision about entry to the foreign market a firm should take into consideration and study thoroughly the possible government regulations, imposed by the host-country authorities. These restrictions are aimed at protection of local producers and are dependent on the industry. The governmental regulations can affect the production

process or/ and sales of the entrant in the host-country. The imposed regulations can severely influence the foreign company, but can be partially or even fully overcome through co-operation with host-country's local partner.

2.3.3 Summary

Undoubtedly, more classifications of barriers can be presented. The number of hindering factors is dependent on the industry, within which a company operates and a firm itself. The increasing amount of empirical studies on sources of barriers for a company's internationalization will result into increasing and more versatile classifications of these sources. The important question, related to the discovery of the barriers, is whether they influence the choice of entry mode and, if yes, how they affect it. In the next paragraph of this paper general *entry mode strategies* will be discussed.

2.4 Different entry mode strategies

Before considering the factors, which affect the choice of entry strategy it's necessary to present the review of existing entry modes, which are described in the academic literature on the internationalization process of a firm (Young, 1989; Hodne & Rosendahl, 2000; Albaum, Strandkov & Duerr, 2002).

According to the specialists, the versatility of used entry modes is the key factor for successful international development (Rosentsveig, 2001). The choice of entry mode to the foreign market is the major element of entry strategy as far as it (entry mode) affects the various aspects of a firm's competitiveness in the host-country market, for example: possibility to control the sales of the products and efficiency of distribution; maintaining of product value that includes quality of the product, brand value and positioning ; possibility to get the information about the foreign market, competitors and customers there ; possibility to react to the protectionism actions from the host-country government.

There are several main forms of entry mode:

1. Export modes (direct and indirect exporting)
2. Contractual modes (licensing, franchising)
3. Investment modes (joint ventures, wholly-owned foreign country subsidiary)

2.4.1 Export modes

Export is differentiated from the other modes by fact that a firm's intermediate or/and final product is manufactured outside the host-country and transferred to it

(Osland, Taylor & Zou, 2001). Exporting is, probably, the most wide-used mode for entering the foreign markets, because it doesn't require big costs and is related with minimum risks for the company. It's assumed, that companies employ the export mode on the early stages of internationalization (Johanson & Vahlne, 1992; Albaum, Strandskov & Duerr, 2002), but it's not always the case. Often companies use exporting to enter the markets, in which use of other entry modes is unfeasible due to some reasons, for example, unfavorable investment climate in the host country, absence of perspectives of working in the foreign market.

Company can choose one of the export modes: direct or indirect export. Indirect exporting occurs when a company enters the foreign market through the intermediaries, located in the home country. This method is especially essential in cases, when producer doesn't have enough information about target market or experience of doing business there, and therefore, tries to reduce own risk. In case of indirect export a company provides work for the local intermediaries that include export agents, brokers, trade houses, distributors, etc. The company chooses its partner according to its (company's) own goals, products specifications and capital resources. The key aspect of indirect export planning is choice of intermediary according to the following parameters: sales volumes, served territories, quality of personnel and sales of competing products (Grankina & Popov, 2003).

There are several advantages and disadvantages, related to utilization of this form of entry mode. Table 2.5 shows the most significant plus and minus points of indirect export entry mode.

Table 2.5 Advantages and disadvantages of indirect exporting

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Export intermediaries know the specifics of foreign markets. ▪ Exporting firm is free from financing of export operations and credit risk. ▪ Exporter is free from dealing with export documentation. ▪ There is the export opportunity without financial commitment and labor costs of personnel of exporting company. 	<ul style="list-style-type: none"> ▪ Absence of control over overseas operations. ▪ There is no exporters' image in the target market. ▪ Export intermediary can enter into transactions with many other companies in order to maintain big volume of operations (sometimes such behavior of local intermediary is harmful for the exporter). ▪ Dependence on the intermediary that can show the opportunistic behavior. ▪ Intermediaries can sell the products of direct competitors of a company.

Source: Bagiev, G.L., Moiseeva N.,K. & Nikiforova S.V. (2001). *Mezhdunarodnyi marketing* (International marketing). SPb: Piter.

In case of direct exporting the company doesn't use the home country intermediaries, although it can hire help of target country mediators (Osland, Taylor & Zou, 2001). To sum up, both direct and indirect exporting are differentiated from other entry modes by low level of resource commitment, risks and control. This entry mode is often preferred by small- and medium-sized companies (SMEs), which possess relatively small capital resources.

Many Western companies, involved into exporting to Russia, prefer to establish contacts with local agent or distributor. The agent acts as salesman on exporter's behalf and it is responsible for searching customers in Russia. Agents usually work for commission from the sum of deal. In case of entering via agent exporter retains the control over price and marketing strategies for its commodities in Russia. The distributor buys the goods from exporter and afterwards, acts on its own to find the customers for the products. All the risks, related to excessive stocks of unsold products, are on the distributor, but the exporter loses control over marketing program for its commodities in Russia. The choice of distributor or agent requires consideration of several factors. Firstly, it's size of the country. As it's known, Russia has the very big territory, and distributors/agents offer countrywide service. Most of local intermediaries are concentrated in Moscow and Saint-Petersburg, so the regional distributors buy from them (UK Trade & Investment Report, 2004). Secondly, it's decision on giving exclusive rights to the intermediary. Here it's necessary to keep in mind that various regions and even cities in Russia differ a lot and, therefore, it's essential to take into the consideration specifics of distribution systems for the product in different regions of Russia. For example, in Saint-Petersburg and Moscow big fish and seafood retailers prefer to work directly with the producer, and it's necessary to find it out before signing the exclusive agreement with the single representative based in Murmansk (Egeland, 2004). Thirdly, there is the necessity of trial periods for co-operation with the Russian representative in order to assess it before making agreements. And finally, it's making agreements itself. It should be written both in English and Russian to avoid the uncertainties and double reading by both parties (UK Trade & Investment Report, 2004).

2.4.2 Contractual modes

Licensing means that a firm "transfers some ownership advantages (for example, multinational experience, ability to develop differentiated products) via contractual agreement to an enterprise in the market country" (Johansson, 1997:195). In the other words, the company gives the other firm in host country the right to use their patent, which defends technology, product or process, or the patent, giving the right to

use their trademark. The company, located in the target country – licensee - receives the rights to utilize patent or trademark on the *exclusive basis* (for example, within the concrete geographical area) or on the *unlimited basis*. The ownership advantages are transferred to licensee by licensor for “a fee, royalty or/and other type of payment” (Johansson, 1997:195).

These modes of entry to foreign market are becoming more and more used by the modern companies. The popularity of such methods can have several explanations:

- The firm doesn't have the necessary knowledge or time to be involved in more complicated international activities (for instance, investment operations).
- The company doesn't possess the big capital resources, which are necessary for investing.
- Small-sized companies, whose products are demanded, have the lack of production capacities and, thus, transfer of their license to the bigger companies is inevitable and profitable.

Licensing is the means that a firm can utilize for expanding its international activities beyond exporting. As in case with exporting, this entry mode also possesses the range of advantages and disadvantages, which are summarized in the Table 2.6.

Table 2.6 Advantages and disadvantages of licensing

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Transferring license to the company in the target market, the firm avoids the risks related to investments into physical assets of the firm (equipment). ▪ Gives licensees opportunity to gain and develop valuable experience in marketing sphere and allows them establish long-term relationships with licensors. ▪ Licensing is advantageous for the newly internationalized company, because the need for research of target market is reduced. Besides, it's often possible to encourage the licensee to support the product in the host-country market. 	<ul style="list-style-type: none"> ▪ Licensee can misuse the transferred firm-specific assets of the licensor. To avoid such dissipation, it's necessary to look for the local partner thoroughly and to pay big attention at the process of making contract. ▪ There is long-term risk of creating the direct competitor for the licensor in the foreign market. This risk is stipulated by the ability of licensee to develop its own skills and knowledge on the basis of transferred technology. ▪ Licensees can utilize transferred rights even after contract expires.

Source: Johansson, J.K. (1997). *Global Marketing: Foreign Entry, Local Marketing and Global Management*. USA: The McGraw-Hill Companies, Inc.

Franchising is one of the types of licensing mode. Nowadays, the relationship between franchisor and franchisee is based on use of two forms:

1. “Product and trademark”
2. “Business format”

The company-franchisor provides the wide range of market support services, for instance, local advertising to maintain the image of the trademark, personnel trainees, help with production schedules (Johansson, 1997). In turn, the host country company manages franchise, paying back to the franchisor the initial fee and royalty percentage on its total sales. The growing popularity of this method among internationalizing companies is determined by opportunity for the firm to obtain better control over marketing activities in the foreign country. However, this form of licensing has one main disadvantage, which is connected with the fact that some activity of franchisee can damage the image of licensor in the foreign market (for example, unsatisfactory quality control of produced products).

In Russia franchising appeared in 1990s, and the first franchises were mostly American and Italian restaurant chains (Chukanova, 2005). According to the research, carried out by Smithbridge consulting group, in Russia the “business format” type of franchising prevails. It can be explained by consumer preferences for services of high quality in, for example, restaurants, retail sector and other spheres of consumer-services (Chukanova, 2005).

Franchising is becoming more and more common way of doing business in Russia, especially in two biggest cities – Moscow and Saint-Petersburg. The attractiveness of utilization of franchising as entry mode to Russia is stipulated by variety of reasons, main of which are the following ones: large consumers base, which trusts foreign brand quality; little competition from the Russian actors, using franchising; geographical coverage and position; cheap labor; considerable interest of the Russian government in new business forms; growing demand for foreign services and goods, etc. Operating in Russia via franchising releases the franchisor from “many day-to-day worries”, related to doing business in Russia (UK Trade&Investment Report, 2004).

However, there are some problems, connected with use of franchising in Russia. They mostly concern the Russian legislation framework for franchising. The fact is that imperfections of the Russian Civil Code lead to the problem of weak protection of franchisors’ rights. But the local franchising entrepreneurs enthusiastically collaborate with government representatives to improve the existing legislation, and the future for franchising as an alternative business model to owning and independent business in Russia is promising (Chukanova, 2005).

Generally speaking, the entry modes such as licensing and franchising expand the international activity of a firm beyond exporting and it is often just prologue to a more permanent investment (Albaum, Strandskov & Duerr, 2002).

2.4.3 Direct investment modes

It's also necessary to consider more sophisticated entry modes such as direct investing into the country. In spite of the fact that nowadays it is not wide-used as the mode for entering the Russian seafood market, it was decided to discuss it in the paper, because as the practice of foreign investment to the other sectors of Russia's economy (telecommunications, food industry) shows, this entry mode has the growing popularity among Western companies, doing business in Russia. Secondly, in present Russian government executes the program of active attracting of foreign direct investments to the country. In order to attract the FDI to Russia the certain actions to bring the Russian legislative framework for investments into consistency with international practices have been made. First, in 1993 it was adopted the new constitution, which clearly protected economic rights and property of foreign investors (Satrom and Zhdanov, 2006). Secondly, the adoption of two parts of Civil Code in 1995 and 1996, correspondingly, contributed to establishing basic principles for commercial interactions (Satrom and Zhdanov, 2006). Lastly, the enactment of various laws, governing different aspects of commercial activity was the important milestone in the process of regulation of foreign investments to Russia (Satrom and Zhdanov, 2006). Therefore, there are suppositions for making assumptions about bright future of this entry mode for work in the Russian seafood market.

The entry modes, which are differentiated from the alternatives by the highest level of control, resources commitment and lowest technology risk, are *direct investment modes* that include *joint ventures* and *wholly owned manufacturing subsidiary*.

According to previous research on the topic, eight motives, influencing the investment decision of companies, have been discovered, e.g. penetration to the growing market, anticipation of relatively higher profits, lower labor costs, various governmental incentive programs, strong competition from abroad in the home market, wish to develop the new industry, political stability, utilization of old machinery and capitalization of know-how (Tucker, Jain & Failer, 1992).

The factors that influence foreign direct investments (FDI), can be divided into two groups: institutional factors and facilities/location advantages.

The influence of institutional factors on the level of FDI is especially significant for considering investments in emerging markets of Eastern Europe. It was proved by earlier researches that "entrants are more likely to establish wholly-owned subsidiaries in the economies, which have progressed furthest in institutional reform" (Meyer, 2001:360). This finding is stipulated by the reality that improved institutional

framework reduces the transaction costs of internationalization for a company “by reducing uncertainty and establishing the stable structure to facilitate negotiations” (Meyer, 2001:358). Institutional factors, for example, include governmental support for foreign investments, non-discriminative trade policy, good labor relations, established and well-functioning financial institutions, etc.

The facilities/location advantages encompass efficient banking/insurance systems, easy access to world markets, high educational level of labor force, easy availability of raw materials and parts, good relationship with local suppliers, excellent shipping and cargo facilities, etc. (Meyer, 2001).

In general, an attractive investment opportunity and the satisfactory investment climate in the host country characterize the most favorable combination of high financial returns and low-non commercial risks (Meyer, 2001). The acceptable investment climate of the foreign country comprises institutional factors, infrastructural aspects and factors of legal environment.

Wholly owned manufacturing subsidiary

It represents the maximum level of the firm's internationalization to the foreign market. As far as the acquisition or constructing of the own subsidiary (green field investments) requires considerable investments, the companies use this mode only in the markets, which are differentiated by essential and stable demand. Many companies in the food industry use the manufacturing subsidiary as the form of market entry to Russia. There are several reasons for attractiveness of this mode. First, it is wish to decrease the transaction costs and to avoid the influence of protectionism instruments, such as high import tariffs in the target country. Secondly, sometimes the firm opens own manufacturing subsidiary not to enter the foreign market, but to defend its achievements, that have already been made in the target country. For example, the company entered the foreign market by means of exporting and obtained stable well-functioning distribution system, but faced the situation of necessity of its own foreign manufacturing subsidiary. Finally, the important reason is aim of the company to maximally adapt its products to the tastes of local consumers. Foreign manufacturing gives the firm significant competitive advantage, because the firm can quickly react to the smallest changes in consumers' preferences, new tendencies in product package and promotion, etc. It's especially important for the market of fast moving consumer goods (FMCG) as far as successful marketing is one of the key success factors (KSF) there. Hence, the closeness to the target market is the vital factor that determines the attractiveness of wholly owned manufacture subsidiary as entry mode.

Despite all the major advantages of creating manufacturing subsidiaries in the target country, there are some weaknesses that can't be ignored (Johansson, 1997). The most important concern is related to the risk exposure, which is connected to essential resource commitments. Secondly, FDI presumes that as far as the entrant becomes full-blown element of the local economic and social life, the collecting of pre-decision information and research evaluation process are important. These researches mostly concern studying investment climate of the target country that is based on the level of political risk. Lastly, the foreign manufacturing can be the serious problem if the influence of the factor "made in" on the consumers' preferences is strong. It concerns the products, the quality of which is evaluated according to the label "Made in..." (for instance, cars, white goods, etc.).

In Russia foreign companies can have wholly owned manufacturing subsidiaries in many industries, such as food industry, retailing, bank services, etc. (UK Trade&Investment Report, 2004). The following aspects concern establishments of wholly owned manufacturing subsidiaries in Russia: they can trade independently from the parent company; they are subject to the Russian taxation system: they don't have liabilities for the debts of parent company as well as the parent company's responsibility for the debts of foreign subsidiary extends only to those acts of the subsidiary that are specifically authorized by the parent company (UK Trade&Investment Report, 2004).

Joint ventures (JVs)

Entering the foreign market by means of joint venture with the local partner is differentiated from the foreign manufacturing subsidiary by lower risk exposure. Joint venture engages two or more firms, that share the ownership, risks, management and rewards of newly formed unit. Each partner makes contribution to the work of new body in the form either money and equipment or technology (Osland, Taylor & Zou 2001). It represents the optimal way of investing in many markets. Many foreign companies enter Russia (or particular Russian regions) through creating the joint ventures. There are several pre-requisites of the attractiveness of joint ventures as the entry mode. The most important of them concerns the fact, that joint venture presents sharing of risks with the partner. Further, forming of the distribution network is one of the hardest tasks for the entrant. Hence, uniting with the local company allows obtaining access to its already existing functioning distribution channels that will let organize sales on the new territory rapidly.

However, the serious disadvantage of using joint ventures concerns possible conflicts of interests of the partners. The absence of compromise in the sphere of strategic and tactic decisions leads to disagreements, concerning sharing of responsibility that results in the total inefficiency of joint venture functioning. According to the results of joint research of German and Russian specialists in the sphere of international marketing, there is the range of typical mistakes, which accompany the activity of joint ventures in Russia. The results are presented in the Table 2.7.

Table 2.7 Mistakes, made within JVs activity in Russia

Areas of making mistakes	Types of mistakes
1. Negotiations	1.1 Future conflicts 1.2 Unclearly formulated terminology
2. Human resources	2.1 Absence of perspectives 2.2 Change of working conditions in the other country
3. Technology	3.1 Transfer of licensees 3.2 Price formation 3.3 Transfer of technology
4. Goals	4.1 Different understanding of goals in the process of joint activities
5. Relationships	5.1 Low level of trust 5.2 Disputes while sharing of profits
6. Joint management	6.1 Strategic mistakes 6.2 Organization of co-operation and sharing of power 6.3 Motivation 6.4 Organizational chart

Source: Bagiev G.L., Moiseeva N.K., Nikiforova S.V. (2001). *Mezhdunarodnyi marketing* (International marketing). SPb: Piter.

Many mistakes appear already on the stage of preparations. Not enough thorough formation of documentation and unclear terminology lead to the difficulties in activity of JVs. The category “future conflicts” reflects the fact that partners can have secret intentions and mixed motives. For example, a firm creates JV for production and sales of products in the target country. After some time, the initiator of JV gains the opportunities for the own marketing of products and realizes that its (initial firm’s) abilities overcome the abilities of JV, therefore, it takes the one-sided decision about liquidation of JV.

During decision-process about creating JV, companies-participants should take into consideration the fact that goals of partners can be changed along time. Besides, the factor of personnel is of importance and requires respect for maybe different business styles of the partners. As it’s seen from the Table 2.7, the mistakes can be made also in area of technology transfer. Quite often the activity of entering firm is unsuccessful, because of the decision of company’s chief managers to transfer the local partner the license for technology that is essential for the firm’s activity. This leads to

conflicts between partners, because the local firm has the access to technology, which it can use further with participation of initiator of the JV.

Many mistakes are also connected with the process of choosing partner in the target country. Very often absence of essential information and methodology of choice doesn't allow evaluate the partner and, correspondingly, efficiency of the future joint activity.

Nowadays, Western companies, investing into Russia switched their attention to the alternative to JVs entry modes, so JVs are becoming less common in Russia, but still stay well known and acceptable investment mode, especially for the production enterprises (UK Trade&Investment Report, 2004). The most wide-spread scheme of arranging JVs in Russia is when entering company provides the capital and manufacturing facilities as long as the Russian partner supplies labor force, knowledge of local market and building (UK Trade&Investment Report, 2004).

As it was possible to notice, all considered entry modes possess certain advantages and disadvantages. The aforementioned entry strategies can be differentiated according to the levels of resource commitment and control and level of technological risk (Osland, Taylor & Zou, 2001). The third parameter – technological risk – is related to the danger that firm's knowledge will be accidentally transferred to the partner, who is located in the target country. Table 2.8 represents summarized comparison of different entry modes according to aforementioned factors.

Table 2.8. Levels of control, risk and commitment with different market entry modes.

Method	Control	Risk	Commitment
Direct exporting	Low	Low	Reasonable
Indirect exporting	Low	Medium	Reasonable
Licensing	Low	Medium	Reasonable-strong
Franchising	Medium	Medium	Reasonable-strong
Joint venture	Medium-high	Medium-high	Strong
Wholly owned foreign manufacturing subsidiary	High	High	Very strong

Source: Osland, G.E., Taylor, C.R. & Zou, S. (2001). Selecting international modes of entry and expansion, *Marketing Intelligence and Planning*, 19 (3), 153-161.

Mentioned above parameters are considered to be the basic ones, which determine the entry mode decision. In reality, there are more factors that affect the choice of entry mode, but overview of various models, explaining selection of entry mode, is following in the next section of the paper.

2.5 Explaining choice of international entry mode

The importance of the decision on entry mode strategy (mode) is difficult to overestimate. According to Young (1989), choice of foreign market entry and development strategy is a front line issue in international marketing. Sarkar and Cavusgil (1996:826) point out that entry mode “has large and lasting impact on the success of a firm’s international operations, since reversal of this decision entails a considerable loss of time and money”. The substantial amount of academic literature is devoted to the versatile research of entry mode choice and management (Hill, Hwang & Kim, 1990; Johanson & Vahlne, 1992; Andersen & Kheam, 1998; Meyer, 2001; Osland, Taylor & Zou, 2001). The result of many empirical studies has been development of various conceptual frameworks for entry strategies of the companies. It’s necessary to review the major existing acknowledged theories of internationalization before developing the specific conceptual framework for entering the Russian seafood market.

Several complex and multi-disciplinary paradigms are used to describe various aspects of entry strategies. Sometimes different theories and studies, concerning the decision on entry mode, are dealing with overlapping determinants and result in the production of complicated conclusions, based on unrelated considerations (Sarkar and Cavusgil, 1996). Therefore, the main objective of this paragraph is to present the review of integrative conceptual approaches applied to the entry mode decision. The overview is based on the framework, suggested by Sarkar and Cavusgil (1996). This is the structure of various variables - central themes – that have been examined in the literature on internationalization of a firm.

Table 2.9 Themes in the research on entry mode strategies

- | |
|--|
| <ol style="list-style-type: none">1. Product-market factors2. Firm/foreign venture specific factors3. Host-market factors4. Cultural factors5. Home-market factors6. Global industry structure7. Global strategic motivations8. Global corporate objectives |
|--|

Source: Sarkar, M. & Cavusgil, S. T. (1996). Trends in international business thought and literature: a review of international market entry mode research: integration and synthesis, *The International Executive*, 38 (6), 825-847.

The scheme consists of eight boxes, which represent the central topics in the literature and cover the wide range of variables, influencing the choice of entry mode.

The prevalence of the early research on international entry mode decision has been focused on the relationship of firm characteristics, environment and selected entry mode (Woodcock, Beamish & Makino, 1994). Later, in the middle 90s, many studies considered the impacts of home and host countries, industry and firm-specific factors on the choice of entry mode by a firm (Zejan, 1990). Later, it was empirically proved that locational, ownership and internationalization factors influenced the decision-making process on the entry mode of a company (Woodcock, Beamish & Makino, 1994).

The considered above variables are discussed in the different theoretical paradigms, which were developed by four conceptual schools of entry mode: entry mode as the chain of establishment, the transaction cost approach, the eclectic theory and the organizational capability framework (Andersen, 1997). Although there is no agreement on the single concept, which should be used to explain choice of firm's foreign entry mode, these theoretical approaches are considered to be most important and influential in the area of international behavior of a company. It's useful to discuss them (approaches) in relationship with the determinants that are utilized in the empirical studies on the entry mode of a firm.

Table 2.10 represents the summary and comparison of different frameworks for studying foreign entry mode of the business.

Table 2.10 Comparison of different frameworks for studying foreign entry mode

	Entry mode as a chain of establishment	Transaction cost approach	The eclectic theory	The organizational capability perspective
Basic theory	Resource-based theory	Transaction cost theory	Transaction cost theory, international trade theory, resource-based theory	Resource-based theory

Source: Andersen, O. (1997). Internationalization and market entry mode: a review of theories and conceptual frameworks, *Management International Review*, 37 (2), 27-42.

2.5.1 Entry mode as a chain of establishment

The first school considers *entry mode as a chain of establishment*. This approach is also often called Uppsala-model, since its main author - Jan Johanson - is the researcher at Uppsala University of Sweden. Johanson and Vahlne argue (1992) that firms follow the subsequent stages in the development if their international activities:

- a. No regular export
- b. Export via independent representatives or agents
- c. Sales subsidiaries

d. Production/manufacturing plants

This model rests on the resource-based theory (Andersen & Kheam, 1998). The theory provides the prediction of the rate of the growth of the business and direction for companies' diversification, taking the firm's resources and relatedness of activities as the determinants of growth strategy. It is also based on one of the first international entry mode models, developed by Stopford and Wells, who argued that entry mode selection was dependent on a firm's international experience and product diversification (Woodcock, Beamish & Makino, 1994). Johansson and Vahlne (1992) see the internationalization as a result of interplay between increasing commitments and knowledge about host market. The basic assumption of their model is the gradual penetration to the foreign market creates and adds to a firm's internal assets – skills and knowledge – intangible resources of the business. In the Uppsala-model the increased market knowledge is supposed to lead to increased market commitment, and vice versa (Andersen, 1997).

The *entry mode as a chain of establishment* perspective considers entry mode decision as time-dependent process. It points out that the company always increases its involvement into international activities gradually, and this approach doesn't include the co-operative entry modes that are widely used by companies. Besides this weakness, the stage model of internationalization has the other disadvantages, and, therefore, its applicability has been questioned recently due to several reasons. First, it's difficult to measure company's degree of internationalization. It's relatively easy to operate with quantitative indicators, such as foreign sales as the percentage of total sales of the firm, foreign assets as the percentage of total assets. But degree of internationalization can be also described by qualitative indicators (for example, degree of management commitment to internationalization, degree of foreign experience), which are difficult to deal with (Albaum, Strandskov & Duerr, 2002). Secondly, companies not necessarily internationalize according to this sequence. Moreover, companies can stop at some particular stage, not proceeding further, skip certain stages or start internationalization at the later stage (Albaum, Strandskov & Duerr, 2002).

However, this theoretical perspective found the support in some empirical studies. But, after all, the use of only one explanatory variable (experiential knowledge) is not likely to provide the sufficient explanation for a firm's choice of entry mode (Andersen, 1997). Relating *entry mode decision as a chain of establishment* theoretical approach to Table 2.9, presenting the research on market entry mode strategies, it's necessary to point out that the main determinant of entry mode choice – experiential knowledge, belongs to the central theme – product-market factors.

2.5.2 Transaction cost approach

The other theoretical paradigm for the choice of entry strategy is the *transaction cost approach* (TCA). Here co-operative entry modes are already included into analysis. This approach is especially efficient in explaining vertical integration decisions, and is useful to predict the entry mode choice by manufacturing, as well as service firms (Andersen, 1997). The stated paradigm is extension of transaction theory, suggested by Williamson in 1979. The main assumption of his theory is the determinacy of the entry mode by the intention of a firm to make the most possible cost-efficient transaction. In this case a firm is supposed to show bounded rational and sometimes opportunistic behavior (Williamson, 1979). However, in the subsequent researches some modifications of TCA were made. These changes concerned the core dimensions of the theory – specific assets, uncertainty surrounding the exchange of resources between buyer and seller and the frequency of economic exchange (Williamson, 1979). According to Andersen (1997), the main stimuli to such modifications were the necessity to include non-transaction cost benefits resulted from increased control of integration, to extend market power and to obtain the larger share of the foreign enterprise's profit. As a result, such adapted TCA predicts the positive relationship between asset specificity of a firm and preference for the entry mode, giving the high degree of control over the foreign activities of the business. But the strength of the mentioned connection is dependent on the influence of so called *moderating factors*, such as external uncertainty, related to host-country and internal uncertainty, associated with the home-country of a company. Hence, the modified TCA classifies the entry modes according to the entrant's level of control (high, medium, low) and at the same time assuming that the concepts of control and integration are tightly related (Andersen, 1997).

However, despite all the improvements, this paradigm has been criticized because of the range of weaknesses. Firstly, the empirical setting and measurement problems were not properly resolved. According to TCA, the unit of analysis should be transaction – interorganizational governance of seller-buyer relationship. The empirical researches, however, were concentrated on the study of intrafirm issues (how a firm should select entry mode to enter the foreign market), therefore, assuming the firm to be the unit of analysis. Maybe, it's true that the same relationships exist on the firm level as on the transaction level, but it's incorrect to anticipate this without empirical investigations (Andersen, 1997). Secondly, while it's strongly believed that transaction costs should be considered during taking decision on the entry mode, they can never be

precisely calculated before the international activity has been established (Andersen, 1997).

However, this approach found support in many studies, which showed that, for example, asset specificity of a firm favors the choice of high control entry modes (Sarkar and Cavusgil, 1996). These findings support TCA, which assumes that when transaction-specific assets are highly valuable and a company is greatly dependent on them, then the corporation prefers vertical integration in order to avoid being reliant on the external supplier that can show opportunistic behavior.

2.5.3 Eclectic model

Growing anxiety upon one-sided consideration of only efficiency questions of entry mode research led to the increasing number of studies that proposed *eclectic model* of entry mode choice (Sarkar and Cavusgil, 1996). The scientific novelty of this approach is that it combines the efficiency issues, environmental factors and global strategic factors, influencing the entry mode choice (Kim and Hwang, 1992). . The *eclectic model* was introduced by Dunning, who suggested that the following factors will influence a firm's decision on entry mode: ownership advantages, locational advantages and internationalization advantages (Andersen, 1997).

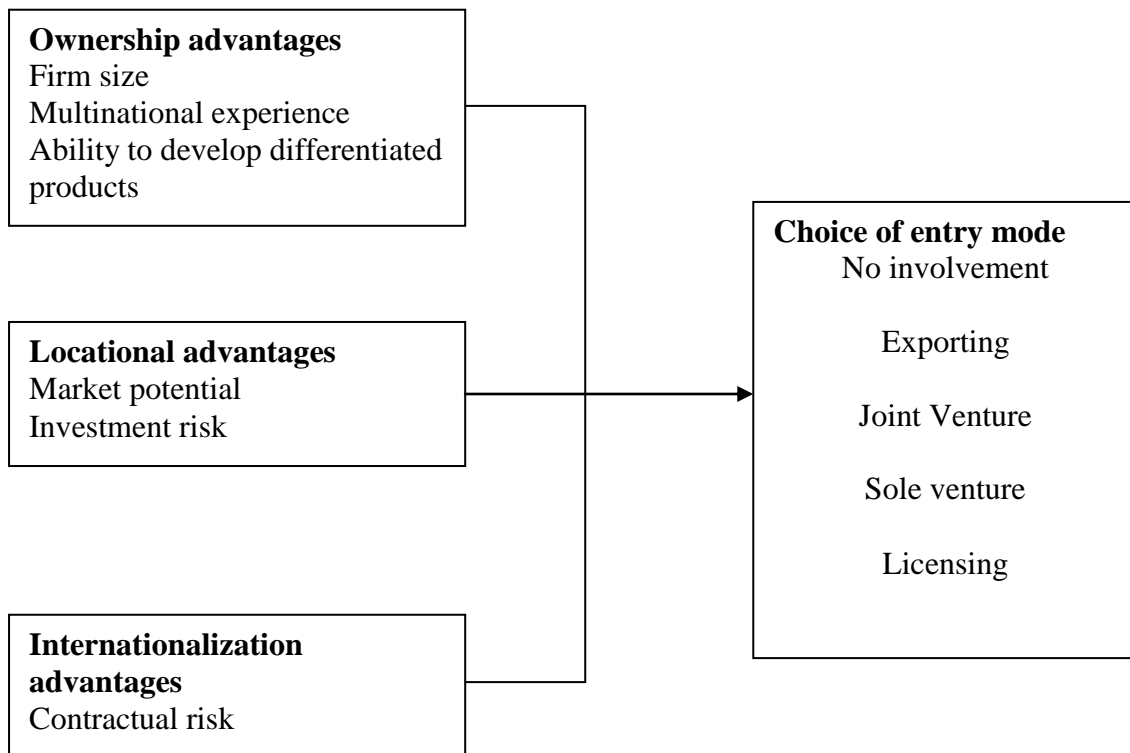


Figure 2.2. A schematic representation of entry choice factors. (Adapted from Agarwal & Ramaswami, 1992).

Ownership advantages are formed by firm-specific assets and skills, which were in focus of analysis in *transaction cost theory*. Locational advantages reveal the

attractiveness of the foreign country for a company in terms of market potential and investment risk. Finally, the internationalization advantages consider the costs of choosing the hierarchical mode of operation over an external mode (Andersen, 1997). Hence, the *eclectic model* presents a multi-theoretical approach for studying the decisions on entry mode. It combines resource-based theory, transaction cost theory and international behavior in a firm theory. In addition to the single concern on risk and returns during the process of choice entry mode, this theoretical approach takes into consideration the desirability of control by a company, as well as resource availability (Andersen, 1997).

There is the large number of empirical studies, based on the *eclectic model* (Kwon & Konopa, 1992; Woodcock, Beamish & Makino, 1994) and the conceptual framework was further developed by many researches (Hill, Hwang & Kim, 1990; Kim & Hwang, 1992; Agarwal & Ramaswami, 1992; Koch, 2001).

Hill, Hwang & Kim (1990), for example, compared three distinct modes of entry to the foreign market – licensing, joint venture and wholly owned subsidiary in the host country – from the point of view of level of control, resource commitment and dissemination risk – the risk related to the possibility that firm-specific assets, such as know-how, will be expropriated by a licensing or joint venture partner. This comparison allowed introduce new decision framework, based on the *eclectic model*. Figure 2.3 represents the variables, that influence the choice of entry mode, according to Hill, Hwang & Kim (1990).

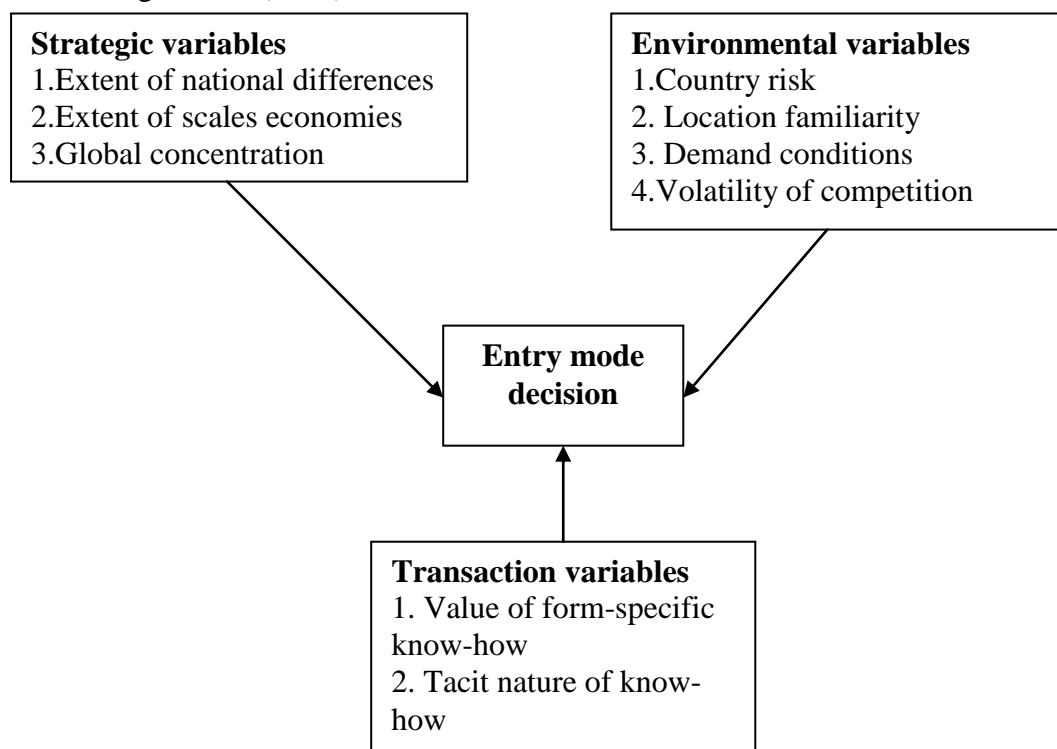


Figure 2.3 The decision framework (Adapted from Hill, Hwang & Kim, 1990).

Hence, Hill, Hwang & Kim (1990) have identified three underlying concepts that influence the entry mode choice: resource commitment, control and dissemination risks. This is the conceptual framework, which unites the various determinants of entry mode. Aforementioned structure is not supposed to replace existing explanations of entry mode decisions, but it's intended to enrich and deepen them .

Kim & Hwang (1992) empirically tested the validity of the *eclectic framework* as a whole, and the importance of each entry mode determinant in differentiating among entry modes. They agree that three groups of variables influence the selection of entry mode, but they point out that “global strategic variables would play a critical role in differentiating among distinct entry modes” (Kim & Hwang, 1992:32). Under the definition of global strategic variables Kim & Hwang (1992) consider global concentration, global synergies and global strategic motivations of a firm as the determinants of final entry mode choice. The main weakness of this research is in not taking into consideration the strategic choices, made by small- and medium-sized companies (SMEs), which don't operate globally .

Agarwal and Ramaswami (1992) took Dunning's *eclectic theory* as the basis and in their studies tested the effects of interrelationship among main determinants of entry mode choice, such as a firm's ownership, locational and internationalization advantages. They have represented the range of conclusions. First, it was proved that larger and more multinational firms have a higher propensity to choose sole venture and joint venture modes, and lower propensity for no involvement in low potential countries (Agarwal & Ramaswami, 1992). Secondly, smaller and less international companies seem to have a higher propensity for no entry or entry through a joint venture mode in high potential countries (Agarwal & Ramaswami, 1992). Thirdly, firms that have higher ability to develop differentiated products do not show preference for any specific mode in markets that have high investment risk (Agarwal & Ramaswami, 1992). Finally, firms appear to prefer the exporting mode in markets that have high potential, but that are perceived to have high investment risks. This implies that firms are interested in entering such markets, but would like to reduce their risk of investment loss (Agarwal & Ramaswami, 1992). The study was among the first ones to present the effect of three types of advantages (ownership, locational and internationalization advantages) and effects of their interactions on the choice of entry mode by a firm. The strength of their research is addition to the analysis of small companies with limited multinational experience.

Eclectic approach to the decision on the entry mode combined and enriched the ideas of the previous concepts. This theoretical framework introduced the variety of

new determinants of the entry mode, chosen by a firm. However, these doubtless advantages of the *eclectic model* can be considered as weaknesses at the same time due to certain reasons. First of all, the use of several variables, effecting the choice of entry mode is likely to create problems when it concerns analyzing and interpreting of interconnections between the determinants (Andersen, 1997). Secondly, the concept of *locational advantage* is also likely to have the direct influence on the international market selection. The assumption that the choice of entry mode and selection of host market are regarded as independent decision process may not be true. For instance, a company can choose the country with high potential and low investment risks, but where government restricts the scope of feasible entry modes. Therefore, it's necessary to carry out further research on interrelationships between entry mode choice and foreign country selection, irrespectively of the eclectic paradigm (Andersen, 1997).

2.5.4 Organizational capability perspective

The next concept, which is used to explain entry mode choice is *organizational capability perspective* (OC). It was introduced by Madhok in 1997, and it was supposed to be the alternative paradigm to *transaction costs approach* (TCA) that was discussed above (Andersen, 1997). But in reality it was perceived to be supplement to TCA. So, only the distinctions of the new theoretical paradigm from aforementioned approach will be briefly considered below. In the focus of analysis of OC is a company as a bunch of “relatively static and transferable resources, which are then transformed into capabilities through dynamic and interactive firm-specific processes” (Andersen, 1997:36). OC approach focuses on the value of firm capabilities, such as skills and competences. This differentiates OC theoretical paradigm from *transaction costs approach*, which considers the choice of entry mode according to the principle of minimization of transaction costs. Andersen (1997) argues that value-based approach to the choice of entry mode is more aimed at the collaborating (e.g. collaborating entry modes, such as licensing, joint ventures), than the approach, stipulated by TCA assumptions.

However, there are some difficulties, related to measuring company's capabilities. It's very hard to deal with assessment of intangible resources such as firm's knowledge, know-how, experience, managerial commitment to going international. Therefore, the future of this conceptual framework depends on the improvement of handling on measuring characteristics like imitability and ambiguity (Andersen, 1997).

2.5.5 Comparative analysis of four conceptual frameworks

After analyzing aforementioned theoretical approaches to the choice of entry mode by a firm it's possible to conclude, that all of them have some advantages as well as restrictions for utilization. After all, these paradigms encompass great variety of factors that could influence foreign market entry, thereby, giving solid theoretical support for the further studies on the entry mode decision, made by the Norwegian seafood firms, entering Russia. The comparative analysis of four considered approaches to the choice of international entry mode is shown in the Table 2.11.

Table 2.11 Comparison of different models of entry mode choice

	Entry mode as a chain of establishment	Transaction cost approach	The eclectic theory	The organizational capability perspective
Unit of analysis	Firm	Transaction	Firm	Firm
Explanatory variables	Firm's knowledge (i.e., experiential knowledge)	Transaction characteristics (e.g. asset specificity, uncertainty)	Ownership, locational and internalization advantages	Firm's capabilities (in particular, know-how)
Behavioral assumptions	Bounded rationality	Bounded rationality and opportunism	Bounded rationality (and opportunism)	Bounded rationality
Decision criteria	Trade-offs between growth and risk	Transaction cost minimization	Trade-offs between return, risk, control and resources	Trade-offs between value and costs
Modes of entry	Entry mode according to an establishment chain: a)no export, b)export via independent representative, c)sales subsidiary, d)manufacturing abroad	Several classifications; e.g., contractual transfer, joint venture, wholly-owned operation	Several classifications; e.g., independent mode, co-operative mode, integrated mode	Internationalization vs. collaboration

Source: Andersen, O. (1997). Internationalization and market entry mode: a review of theories and conceptual frameworks, *Management International Review*, 37 (2), 27-42.

After consideration of various entry modes and factors, affecting the choice of entry strategies, it can be reasonable to discuss the rules for entry mode selection. They were recognized by Root in 1994 (Albaum, Strandskov & Duerr, 2002) and differ according to the level of complexity.

The first imperative is called *naive rule*. It assumes the selection of only one possible entry mode for all the foreign market. The main disadvantage of this method is that it doesn't allow take into consideration the specific characteristics of a particular foreign market, and therefore the probability of wrong entry mode selection is high. Moreover, this method doesn't consider the choice of entry mode from the strategic

perspective. The decision on entry mode is made on the basis of absence of alternatives, and the managers of a company, using the *naive rule*, show their “shortsightedness” that results into under exploitation of foreign market opportunities.

The *pragmatic rule* assumes entry mode to be the complex decision. It presumes the choice of workable entry mode for each particular foreign market. It means, that according to this imperative, a firm usually starts its international activity with selection of low-risk entry mode (Albaum, Strandkov & Duerr, 2002), and the company begins the consideration of alternatives only if the initial entry mode is neither possible for operating in the chosen foreign market, nor profitable. As it's seen, this rule is more advanced, than naïve one, but the main disadvantage of it is, that chosen workable entry mode is not necessarily the best one for doing business in the selected host country.

The *strategy rule* is the most comprehensive one. The main assumption is that a firm should systematically analyze and compare various entry modes in order to adopt the right one for the particular foreign market. The most important advantage of this method is that it considers the diversity of the factors, which can influence the company's decision on entry mode.

2.6 Entering Eastern Europe

In this section there is overview of general aspects of entering the emerging markets of Eastern Europe in general, as far as it is the necessary prerequisite for constructing the conceptual framework for entering the Russian seafood market, which will be presented and discussed in the future paragraph.

In 90s years of the 20th century Eastern European countries (EECs) actively began to push the development process by adaptation and improvement of mechanisms of democratical political order and market economy. The recommencement of their (Eastern European countries') relations with West opened the new perspectives for the Western firms, which started to consider the possibility to enter the newly opened markets of Eastern Europe. The major differences between West European countries and Eastern Europe concern the *marketing environments*. Thus, the success of entry to EECs depends on studying their environments in order to adjust the international strategy of the firm that would correspond to the specific situation, viewed in Eastern Europe. The transition from the command (centrally planned) to market economy imposed the significant changes on the marketing environment of EECs (Arnold, Chadraha & Springer, 2001). These changes are connected with new political order, as well as with introduction of new economic, financial and legal context.

On the optimistic side, it's proper to notice that the progress in economic and market development of most of EEC, achieved by means of economic reforms (among which privatization and trade liberalization are the most prominent ones), is impressive. Thus, Eastern Europe can be considered as one of the most attractive business environments in the world (Bennett & Blyth, 2002). Among the factors, which stipulate the attractiveness for doing business in EECs, the most important are the following ones: market size and large population; well-educated consumers, who are responsive to advertising; highly skilled and educated workforce; potential for rapid economic growth; numerous market niches; minimal restrictions on joint ventures and licensing systems, etc. (Bennett & Blyth, 2002).

On the negative side, it's necessary to mention general challenges for the companies, entering markets of EECs. According to Bennett & Blyth (2002), the major concerns for doing business in Eastern Europe are connected with: underdevelopment of commercial banking system there; delays, which are the result of dealing with big amount of state officials, who don't possess the authority to take considerable decisions; weaknesses in legal frameworks for consumer and employee protection, contract, business bankruptcy within the private enterprises; the fact that English is not as widely spoken in EEC as in the West yet; etc.

According to the scholars (Tucker, Jain & Failer, 1992; Arnold, Chadraba & Springer, 2001; Schuh & Holzmuller, 2003), the perceived advantages and difficulties, related to entering Eastern Europe by the Western companies, put the impact on the decision on entry strategy of the foreign companies. Many firms are operating more cautiously in Eastern European region and consider factor, such as risk control as one of the decisive determinants of entry mode selection. Arnold, Chadraba & Springer (2001) argue that, for example, more and more Western companies prefer green-field investments to acquisitions while entering EECs. It occurs because the costs of rebuilding the existing business after purchase exceed the costs of green-field investments. Moreover, some companies disengage from foreign direct investments at all, in the EECs, where benefits of low-cost labor force are often offset by higher costs in logistics and other operating expenses. Hence, it can partially explain the growing popularity of contractual manufacturing as the entry mode: it requires low capital commitments, market exit is possible at quite short time, and at the same time a company can exploit the benefits of low cost production (Arnold, Chadraba & Springer, 2001).

According to Brouthers, Brouthers & Nakos (1998), selection of entry strategy for Western companies, operating in Eastern Europe, is largely influenced by

perception of associated risks (investment and contractual risks) and cultural barriers in EECs. It's assumed in the literature on the internationalization of a firm that, in general, Western companies prefer to integrate into the host-country business and cultural environment by using the full-control entry modes, which allow them to coordinate the business activities of the subsidiary, located in the foreign country (Brouthers, Brouthers and Nakos, 1998). However, while entering EECs the Western businesses have begun using extensively the entry mode, such as joint venture instead of wholly-owned foreign manufacturing subsidiary, as far as it doesn't meet the opposition of the governments in EECs; JVs still allow a firm to have large degree of control over its overseas operations; the asset commitment in JVs is lower, than in wholly owned foreign subsidiaries. Generally speaking, JV entry mode lets a company gain local knowledge efficiently and simplifies its entry into the foreign unfamiliar cultural environments (Brouthers, Brouthers & Nakos, 1998). But sometimes it's rather difficult to find appropriate and reliable local partner for creating JV in EECs.

According to Schuh & Holzmuller (2003), Western firms use the strategy of gradual increase of their commitment to doing business in Eastern European markets. It means that foreign companies prefer to enter the market by use of export, which is considered to be the least risky entry strategy with minimum resource commitment. After the companies become more familiar with business environment of EECs and get the evidences that their products are accepted in the market, they prefer to increase the commitment through adopting more complex entry modes, such as establishment of joint venture with local partner or opening the foreign manufacturing subsidiary.

There are no some conclusive studies on the factors influencing choice of entry strategies into EECs (Shama, 2000). However, some descriptive studies (Tucker, Jain & Failer, 1992; Smith & Rebne, 1992) report that two dominant entry strategies among studied companies were exporting and joint ventures. Besides, most companies, which were considered, declared that perceived size of Eastern European markets and market potential prevailed over the supposed risk of doing business in the region (Shama, 2000). Arnold, Chadraba & Springer (2001) point out, that key success factors of entering to Eastern Europe by Western companies include patience, thoroughness, knowledge of the country, good personal contacts, stable and reliable supply networks, efficient and accepted organizational structures and effective control mechanisms.

2.7 Russia's economic development

Russia is the biggest emerging market in Eastern Europe. After 1998 the quite good development of the Russian economy is observed. It (economy) stabilized from hyperinflation in 90s into much more acceptable levels of 15% and 11,7% in 2002 and 2004, correspondingly (Nilssen, 2005). According to data of Finnish Institute for Economies in Transition, the Russian GDP (Gross Domestic Product) grew 6.4% in 2005 (BOFIT, 2006). Private consumption that accounts for 47% of GDP continued to expand in 2005 at the tempo of 11% , which was achieved in 2004 (BOFIT, 2006). It's reflected in the fast permanent growth in the trade and service sectors. The Russian economy is rather strongly dependent on the world prices for energy sources as far as oil and energy are the main items in the Russian exports. Besides, Russian exports consist of machinery and equipment, chemicals and rubber, wood and paper, food (Bennett & Blyth, 2002). The growth of export volumes has fell in comparison with 2004, but they increased their weight in GDP due to the rise in energy export prices. Imports in 2005 equaled over 21% of GDP, and continued decreasing in 2005 as import prices rose (BOFIT, 2006). The key Russia's imports comprise food products, including seafood, textiles, machinery and equipment (Bennett & Blyth, 2002). In 2005, Russia's GDP reached 18 billion euro or 765 billion US dollars (4300 euro or 5350 US dollars per capita) at nominal exchange rate (BOFIT, 2006). As it's seen Russian economy experiences the growth that is reflected in increase of GDP – the basic indicator of economic development of the country. Further, the forecasts of Russian authorities project, that the economy will become more diversified as GDP growth will not slow too much despite much slower growth of oil and gas production. In addition, Russia's economic forecast from late 2005 projects slow growth for agriculture sector and extractive industries in 2006-2008 along with the speeding up of increase in manufacturing (BOFIT, 2006). As predicted, the most dynamically growing and developing domestic industries will be trade, construction and telecommunications.

In the sphere of monetary policy it's necessary to point out the growing appreciation of rouble – Russia's national currency. As in previous years, in 2006 the monetary program of the Russian government and Central Bank contains the inflation objective. The anticipated range of 7-8.5% inflation this year (2006) is independent of the oil price assumptions (BOFIT, 2006).

In 2003, the Russian President Vladimir Putin declared doubling of Russia's GDP within the decade to be the national goal. According to opinion of principal analyst at the Bureau of Economic Analysis in Moscow Mr. Nikolaenko, achievement of this goal can be problematic due to some reasons. Firstly, as the international

experience shows, the growth of GDP mostly occurs by means of acceleration of industrialization process in the country to provide export commodities. But industrialization in Russia can't be viewed as internal resource for GDP increase as far as Russian agriculture sector contributes only about 5% of GDP and, therefore, couldn't release substantial resources to industry (BOFIT, 2006). Hence, Russia faces the challenges of increasing its economy through some other sectors, namely commercial services (BOFIT, 2006).

2.8 Development of Norwegian seafood exports to Russia

In addition to the positive economic development in Russia, steadily increasing exports of Norwegian seafood to Russia create the promising forecasts for development of seafood trade between these two countries. According to the information from Norwegian Export Council for Seafood (NECS), in 2004 Russia became the third important market (after Japan and Denmark) for exports of Norwegian seafood. The main export items are salmon and herring. In 2004 export of Norwegian salmon to Russia increased by 54% in comparison with exports in 2003, exports of frozen herring increased by 281 millions NOK, by 10%. At the same time it was developed the market for Norwegian trout in Russia, and the exports of trout equalled the value of 400 millions NOK in 2004.

In 2005 Russia finally became the biggest importer for Norwegian seafood. As the latest figures from NECS show, the total export of Norwegian seafood to Russia in 2005 equalled 31,7 billions NOK in value, thus, it increased by 3,6 billions NOK in comparison with 2004. The reason for so strong growth was the increase in export volumes of salmon and herring and the price increase for the most of Norwegian seafood. Charts, illustrating the development of Norwegian seafood exports, are available in Appendices 1 and 2.

2.9 Conceptual framework for entering the Russian seafood market

In this section of the paper the conceptual framework for entering the Russian seafood market is presented. The framework is constructed on the basis of key theoretical aspects of company's internationalization, which were analyzed in the previous parts of this thesis. The meaning of conceptualization is to explain, either through text or graphics, the main things that will be studied empirically (Dahlen, Forsman and Leven, 2003). During the work on the thesis the large amount of academic

literature on the topic as well as practical issues were considered. The parts of this review are conceptualized.

The conceptual framework for the current study is presented in the Figure 2.7.3. It shows the interconnection of three research questions:

1. What are main motives for fish export from Norway to Russia?
2. Which main “external barriers”, based on the foreign market, are perceived by Norwegian fish companies?
3. Which entry modes do the Norwegian seafood companies choose when entering the Russian market?

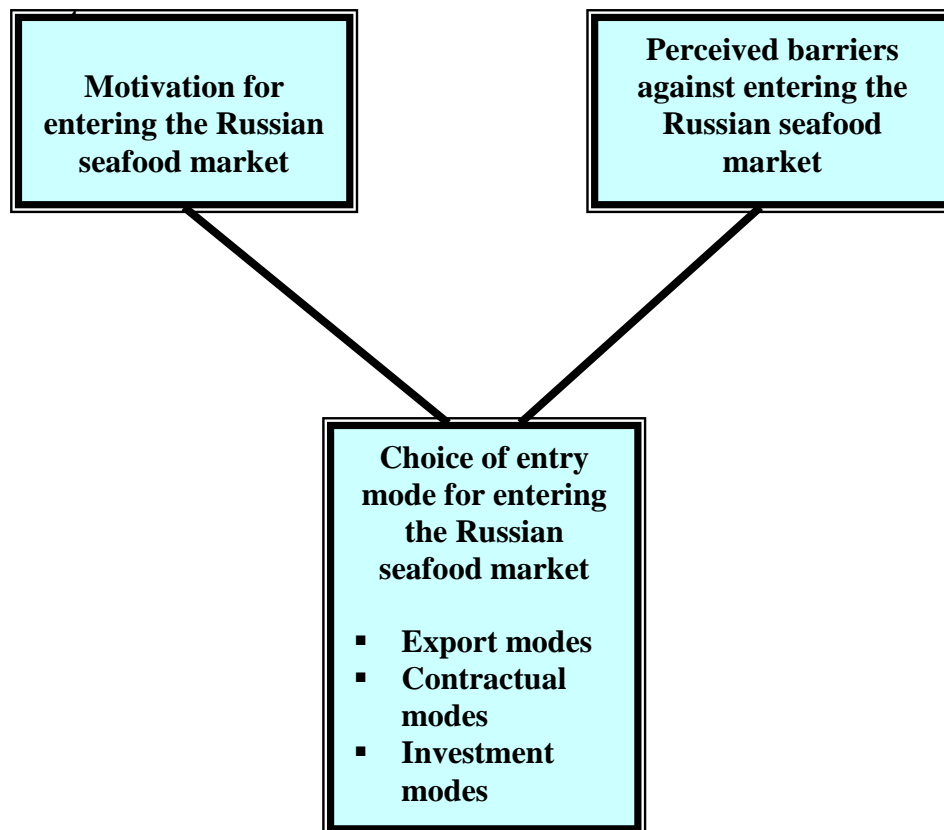


Figure 2.4 Conceptual framework for entering the Russian seafood market

First, the the motives, that can be relevant for entry to the Russian seafood market are conceptualized. The specific stimulus for entering the Russian seafood market are presented in the Table 2.12

Table 2.12 Motivation for entering the Russian market.

- Russian market potential (Helanterä & Salmi, 2001)
- Growing demand in Russia (Solberg, 2005)
- Risk spreading (Hodne & Rosendahl, 2000)
- Wish to utilize new opportunities and cope with challenges, existing in the foreign market (Hodne & Rosendahl, 2000)
- Belief that problems in the home-country can be lost by means of internationalization
- Wish of expansion (Hodne & Rosendahl, 2000; Albaum, Strandskov & Duerr, 2002)
- Small domestic market (Albaum, Strandskov & Duerr, 2002; Solberg, 2005)
- Russia's expected economic growth (Helanterä & Salmi, 2001)

Based on the previous researches in the area and personal expectations, the most prominent factors that favour entering the Russian seafood market are the following ones: big and unsaturated market; stable/increasing demand for seafood, including high-valued products; the Russian market opportunities, e.g. rapid growth of retailing industry and seafood restaurants; etc (Helanterä & Salmi, 2001; Nilssen, 2005). The gradual improvements in legislation, regulating export-import operations (Tax Code and Custom Code) are also expected to be factors, encouraging foreign companies to consider entering the Russian market (Ivlev, 2005). According to the opinion of Western analysts, Russia is no longer different from most foreign business sites (Giddings, 2002). However, it's obvious, that some assumptions that work in one country are necessarily applicable to Russia. The challenges, offered by doing business in Russia, should not be overlooked or underestimated. Thus, some of the challenges, hindering or complicating entry to the Russian market, are conceptualized further.

Table 2.13 Main problems associated with entry to the Russian market

- Higher than domestic risk (Johansson, 1997; Helanterä & Salmi, 2001; Albaum, Strandskov & Duerr, 2002; Bennett & Blyth, 2002)
- Lack of market information (Albaum, Strandskov & Duerr, 2002)
- Trade barriers (tariffs, quotas) (Young, 1989; Johansson, 1997; Albaum, Strandskov & Duerr, 2002; Bennett & Blyth, 2002; Marshall, 2003)
- Documentation requirements (Albaum, Strandskov & Duerr, 2002)
- Barriers, stipulated by socio-cultural characteristics (Helanterä & Salmi, 2001; Albaum, Strandskov & Duerr, 2002; Bennett & Blyth, 2002)
- Bureaucracy (Helanterä & Salmi, 2001; Bennett & Blyth, 2002)
- Government regulations (Johansson, 1997)
- Political, legal and commercial risks (Johansson, 1997; Albaum, Strandskov & Duerr, 2002; Bennett & Blyth, 2002; Marshall, 2003)

According to the previous surveys, companies, involved in exporting to Russia, point out complicated and unpredictable legislation and complicated process of customs

clearance, customs corruption, time-consuming procedures of certification and labelling to be the most important obstacles against exporting to the Russian market (Country report: Russia, 2001).

Based on considered motives for and barriers against entry to the Russian market, there is assumption that the most utilized modes for entry to the Russian seafood market are exporting and joint ventures (Brouthers, Brouthers & Nakos, 1998; Helantera & Salmi, 2001; Dahlen, Forsman & Leven, 2003; Schuh & Holzmuller, 2003).

3. Methodology

In the previous chapter the theoretical framework for current research was presented. This chapter is devoted to consideration of methodology, utilized in this empirical study. In addition, the issues of reliability and validity of collected data will be discussed in this part.

3.1 Choice of study design

Any kind of research presumes use of relevant methodology. Methodology can be defined as the way in which information is found (Albaum & Peterson, 1984). It includes methods and procedures, which are used for collection and proceeding of necessary data. Methodology includes the specific research methods, the choice of which depends on the overall objective of the study and research questions.

There are two main alternative approaches for carrying out the research in business and management studies: theoretical or empirical approach to the research. If the empirical approach is chosen, the other major alternatives appear: use of qualitative or quantitative research designs, or methods (Remenyi, 2002). Quantative method is utilized for collecting and proceeding data, which describes figures and quantities. On the opposite, qualitative research presumes the collection of data for studying interconnections, since this allows collect much various information about several research objects (Gullholm, 2004). In the end, the research approach is the same, and the only difference is in object of proceeded information: in case of quantitative study it's mainly numbers, while in qualitative research it's words and images (Remenyi, 2002). The qualitative research possesses the range of advantages. Firstly, it allows produce more comprehensive information. Secondly, it presumes that researcher uses subjective information to describe studied variables in the context, therefore, it's aimed on the wide understanding of the situation as a whole (Key, 1997). On the other hand, qualitative research is not without disadvantages, related to problems with reliability and validity of collected data. But these disadvantages will be discussed in details in the final section of this chapter. It's necessary to point out that choice of research method depends on the overall objectives of study and concrete research questions. Therefore, selection of appropriate method is primarily dependent on the clearly formulated research questions.

For reaching the purposes of the current study it was determined to adopt the qualitative, or as it's often called interpretive research approach, due to several reasons. First, as it was already mentioned, the aims of the study are decisive for the choice of methodology. The main objective of this study is to analyze the concrete aspects of

international behaviour of a separate firm. As it's known, the most appropriate method for researching behavioral issues is qualitative research, which "is concerned with the uniqueness of particular situation, contributing to the underlying pursuit of conceptual depth" (Kelliher, 2005:123). Secondly, the qualitative method was preferred in order to answer the formulated research questions that assume obtaining not quantitative information, but verbal explanation of concrete situations.

3.2 Case study

Case study is one of several strategies, applied by researchers. The other ones include surveys, histories, analysis of archival information and experiments (Yin, 1994). For complementing current research it was decided to employ design of case studies. Yin (1994:13) gives the following definition of this method: "a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". Yin (1994:1) points out that case study is preferred when the research is devoted for finding answers to questions starting with "why" and "how", when researcher has little or no control over studied issues, and when "the focus of the study is on a contemporary phenomenon within some real-life context". Why was it decided to employ case study method as the most appropriate strategy for conducting current research? The choice of case studies for this research is stipulated, first, by the type of imposed research questions, secondly by absence of control by researcher over behavioral events and, finally, by the focus of the research on the contemporary events. As far as the deep study of behavioral aspects of company's process of internationalization is the matter of interest of current research, rather than making generalizations, the case study design was considered to be the most appropriate method for this survey.

3.2.1 Choice of cases and key informants

As it has been mentioned above the generalization of the findings is not in the focus of current research, but for the sake of better opportunities to generalize findings to the theoretical framework, it was decided to reject single-case study in favour of multiple case study. The design of case study assumes small, not random and theoretical sample (Key, 1997).

The cases were selected in the way it could be possible to get the precise answers to the formulated research questions. As the object of the present study, the

certain Norwegian seafood companies, which operate in the Russian market, were chosen. The idea was to make the survey among the companies, using different entry modes during their work in the Russian market. Consideration of possible findings from such case studies could give the better generalization to considered earlier theory. Due to given time resource limits and problems, related to establishing contacts with particular companies, the necessity to revise the range of considered for study companies appeared, and the final choice included the firms that are either situated in Tromsø, or their representatives could be available for personal interviews in this city. Hence, the following companies were chosen for the study:

- Volden Group A/S
- Nergård A/S
- Norway Prawns A/S

However, it was decided to make also telephone interview with representative for the company Hallvard Lerøy A/S due to the fact that this quite big seafood firm has big experience in internationalization, in general, and doing business in the Russian seafood market, in particular.

The choice of these companies can be explained by a range of aspects, which are considered as important for achieving the purpose of the research. Firstly, these companies have already entered the Russian fish market and have quite solid experience of internationalization. Secondly, these companies consider Russia to be one of the profitable markets for their activities. Finally, it was relatively easy to make the contact with representatives for these companies and to get access to the internal sources of information about chosen business direction.

As it was already mentioned, the initial intention was to highlight various entry modes, chosen by Norwegian seafood exporters for entering Russia. That means that variety of foreign market entry modes is the essential condition for the current survey. However, due to described limitations, it was unlikely to do by means of case study, therefore, the empirical information, obtained from the key informants was extremely important as far as it compensated lack of data from case studies. The key informants are not representatives for the Norwegian fish companies, which are directly involved in trade with Russia, but they are experts in different aspects in the researched area.

3.3 Data collection method

The next step was making decision on data collection method. There are two possible approaches. One of them is to study directly the certain entities that possess the

relevant for the survey information. The second approach assumes studying and analysis of already collected information on the topic of interest (Albaum & Peterson, 1984). Yin (1994) highlights the following methods of collection primary and secondary data: documentation, archival records, interviews, direct observations, participant observation and physical artefacts. As far as Yin (1994) considered research strategies related, first of all, to social science area, not all of these methods can be similarly relevant for economic studies. Thus, current empirical research encompassed method of documentation that was aimed at the collection of secondary data from sources such as hand-outs given by key informants and information on web-pages of the studied companies as well as interviews for the purpose of collecting primary data on researched topic. In the end, these sources of evidence are highly complementary, and case study requires use of as many relevant sources as possible for the sake of decrease negative effects related to disadvantages of case study method (Yin, 1994).

After having explored large body of literature on the topic as well as previously done researches, it was decided to utilize semi-structured interviews as data collection method because they are not so formalized, as structured interviews, and allow collection of more versatile data, but at the same time let the interviewer maintain conversation within frames of his/her research questions. It's especially frequently utilized data collection method in exploratory case studies, where semi-structured interviews help to describe studied variables in the most complete way. Semi-structured interviews presume the preliminarily constructed questionnaire with themes or questions to be covered during the interview, though latter ones can vary from interview to interview depending on the concrete situation and interviewee (Saunders, Lewis, Thornhill, 2003).

3.3.1 Interviews and presentation of key informants

All interviews were conducted according to the list of questions (questionnaire), which consists of four major parts. First part deals with general demographic characteristics of the firm. Other three parts contain the questions, relevant for collection of information, and they correspond to research questions of this paper:

- Motivation for entering the Russian market
- Perception of the barriers against this entry
- Choice of the entry mode

The complete version of survey guide is represented in Appendix 3. After having created questionnaire for case studies, there was the need to revise them to adjust for interviews with key informants. As it's been mentioned, the key informants, who

participated in the current study, are not representatives for a certain seafood company, trading with Russia, but they are acknowledged experts in the particular aspects, relevant for this research. The modification of the interview guide included deleting the part that deals with collection of demographic characteristics of a firm. The rest of the questions were formulated in the way, so it was possible to get general opinions about studied aspects. Appendix 4 presents the questionnaire for interviews with key informants.

The questionnaire was sent to all prospective informants by e-mail, first, asking, either to complete the questionnaire and send it back by e-mail or to arrange time for personal interview. All contacted persons preferred to be interviewed rather than to fulfil the questionnaire. There can be several reasons for this. First, the interviewees can be driven by the wish to receive feedback and personal assurance about the use of information, which they share (Saunders, Lewis, Thornhill, 2003). Secondly, the interview provides them with opportunity to reveal on events without having to write much, especially in the case of open-ended questions that don't assume unilateral responses (Saunders, Lewis, Thornhill, 2003). Lastly, it was received positive feedback on the researched topic, which was considered to be interesting and relevant for the current work of interviewees. Some of them showed their interest in being acquainted with the paper after the work on it will be completed.

The interviews with representatives for the chosen companies took place in the period February-April, 2006. From the company Volden Group A/S the interview took place on March, 27th with Sales Manager Roger Richardsen, who is responsible for relations with the Russian partners. From Norway Prawns A/S there was interview with Ekaterina Zelina on April, 21st, Business Development Manager Russia. The last interview was on the April, 21st with Truls Fredriksen, who is Managing Director in Nergård A/S. Besides all aforementioned personal in-depth interviews, it was held one telephone interview on April, 19th with Knut Hallvard Lerøy, who is Director of the Department of International Trade in Hallvard Lerøy A/S, which is located in Bergen.

Besides, two key informants participated in this survey, and they helped to get the lacked data or supplement the information, obtained during case studies. They are:

- Knut J. Borch, Managing Director in North West and West Russia Regional Venture Fund. Personal interview took place on February, 23rd.
- Frode Nilsen, Senior Researcher in Fiskeriforskning. Due to impossibility to arrange the personal interview with this respondent, the questionnaire was e-mailed in this case.

The first interview showed the partial unsuitability of accurately formulated questions. As far as the questions are open-ended, it assumes that interview is more close to free conversation. The sequence of posed questions could vary as well, depending on the progress and current of conversation. In some cases many answers appeared naturally during the conversation, without posing the prepared questions. In some cases the additional questions were required to explore deeper the information, given by the certain interviewee. Despite all these facts, it's supposed that well-prepared questionnaire was essential, since it helped to manage the conversation within the framework of the formulated research questions.

There were only positive experiences, related to conduction of interviews. All the respondents were very cooperative and open-minded when it concerned the general information and own opinions on the topic. Besides, from many of them it was obtained the additional information about represented company in the form of brochures or presentations. All interviewees allowed taking contact with them afterwards in case of some additional questions.

3.4 Issues of reliability and validity of results

The case study method is often criticised due to some disadvantages, which should be taken into consideration during the process of designing study. The extreme subjectivity of the inquiry leads to the problems connected with establishing reliability, validity and generalizability of collected information (Key, 1997).

3.4.1 Reliability

The first issue is *reliability of obtained results*. Reliability refers to the stability of measures (Kelliher, 2005). In the other words, the results, obtained during multiple identical measures, conducted by different researchers, should be the same in order to be considered as reliable. The reliability of the findings, obtained through the personal interviews can be influenced both by interviewer and respondent. Researcher can try to obtain desirable answers by specific formulation of the questions or using the certain intonation during the interview. On the other hand, the interviewee can keep in secret some important information, considering it to be too sensitive. To increase reliability of findings during conducting case studies, it's strongly recommended to combine different methods of data collection, for example, participant observation, interviews and documentary sources (Kelliher, 2005).

Concerning the current study, the limitations in reliability of findings are assumed. These limitations are due to absence of necessary experience for conducting

the interviews, and this possibly resulted into biased proceeding of interview results. Besides, limits of time that could be devoted to construction of the questionnaire and proceeding of results also influenced the reliability of the information in negative way. However, there was attempt to decrease the possibility of misunderstandings during the interview by asking guiding and additional questions to confirm that given information was understood correctly. Moreover, combination of interviews with the other sources of evidence, such as documentation and archival records, was also aimed at strengthening the reliability of obtained findings.

3.5.2 Validity

The second criticism often concerns validity of collected data, which refers to “whether there is good match between researcher’s observations and the theoretical ideas they develop” (Bryman & Bell, 2003:288). In this survey it was created as wide theoretical framework as possible. The questions in the questionnaire were divided into three main parts, each of them corresponded to one of three research questions of the paper. It was done to prevent the misunderstandings concerning the objectives of the study. Besides, in the questionnaire the same definitions and concepts as in theoretical part of the paper were used in order to ensure the match between theoretical propositions and empirical results.

The final criticism is related to limited possibility of *external validity*, or *generalizability of the findings*. Generalizability describes “the extent to which the findings of the enquiry are more generally applicable outside the specifics of the situation studied” (Kelliher, 2005:123). It’s often also defined as external validity (Yin, 1994). As far as case study method is not associated with researching of large quantities of entities, it’s logical to suspect limited generalizability of the results. The specialists in business research area (Yin, 1994; Saunders, Lewis, Thornhill, 2003; Kelliher, 2005) point out that it’s important not to try to choose the most representative cases for studying in order to spread future findings on the other cases, but it’s essential to try to generalize results of the study into theoretical framework.

For the purposes of this research it was crucially important to choose the respondents, who possessed the necessary knowledge on the studied topic and, therefore, were competent to answer the questions of the survey.

Of course, due to small amount of studied cases, it’s difficult to speak about generalization of the findings of this research. The main objective of current empirical study was to give maximum full exploration of considered cases rather than to

generalize the results of the research to the other entities. However, it is supposed to generalize the findings to theoretical propositions of this research.

4. Results

The chapter deals with presentation of the data, which was obtained through the personal interviews with representatives for the chosen companies and key informants. Current chapter is structured to overview the results of each separate case study. First, the motivation for entering the Russian seafood market is discussed. Secondly, the information about main perceived barriers against such entry is represented. Finally, the organizational entry modes, utilized for doing business in Russia are highlighted.

4.1 Introduction

The starting point for analysis of interviews was to follow how the motivation for and barriers against entering the Russian seafood market influence the decision about entry mode for Norwegian companies. In the other words, the objective was to find out which entry modes are preferred by Norwegian seafood companies for working with the Russian market, and if there is any interconnection between this strategic choice and perception of motives and barriers against entry to Russia.

4.2 Volden Group A/S

Volden Group is the Norwegian small-sized company, owned and run by Volden family. It is situated in the Northern Norway (Alta) and currently employs around 50 local people, therefore, it's one of the cornerstones of local industry.

Volden Group AS is a vertically integrated company that produces approximately 7,500 tons of salmon and trout annually through a fully integrated system designed to maximise the health of its stocks. This system consists of several stages, such as smolt production: annual production 1.5 mill smolt; on-growing: production at 8 different sites, with an annual production of 7,500 tonnes salmon and trout; processing: annual harvesting capacity 10,000 tonnes; sales: exclusive handling of all sales of B lue S ilver™ Superior salmon and trout.

According to the information, obtained during the interview, in 2006 the total production was 6,500 tons of fish, 5,500 tons of which was salmon and 1000 ton was trout. This makes Volden Group A/S one of the smaller salmon producers in Norway and this allows it have hand-on control of day-to-day operations.

Volden Group A/S is the market-driven company, and it delivers B lue S ilver™ Superior salmon and trout to the markets of EU, Japan, Russia, Ukraine, USA, Taiwan and Korea. 97% of the annual production is exported. Volden Group A/S began to

export frozen salmon and trout first, gradually moving to the exports of fresh fish. According to the information, obtained during interview, fresh salmon and trout construct the bulk of exports to Russia.

Volden Group A/S has long-term commitments to a limited number of partners (wholesalers and/or retailers) in Russian market, most of whom are located in Moscow and Saint-Petersburg. Volden Group A/S has achieved premium price for Silver™ Superior salmon and trout in the Russian market.

4.2.1 Motivation

The respondent mentioned big and growing market for seafood products in Russia as one of the main motives, seen by the company Volden Group A/S on the stage of making decision about entering Russia. The rapid economic development of Russia was mentioned as very important trend.

As far as Russia maintains stability of its economy, consumption of fish will have positive development. But it's very important that not only extremely rich people, but whole Russian population could improve their purchasing power.

In addition, there was pointed out one more essential stimulus for entering the foreign market, such as *tiny Norwegian market*.

We're just 4,5 mln. people, and we can't eat all the produced fish ourselves.

According to interviewee, the Russian market is very important for Norwegian seafood companies, especially for the fishing industry in the Northern Norway. The explanation is in the level transportation costs. According to the information, obtained from the respondent, the scheme of working with Russia is the following:

Russian trucks come to Northern Norway via Finland, driving good, not bumpy roads there. It's cheaper for the Russian buyers to buy from Northern part of Norway, than, for example, from the Western coast of the country, because of the short distance (it's just 2000km. from Moscow to Northern Norway) and, thus, lower transportation costs.

The other important motives, influencing the decision of the company to enter the Russian seafood market were as follows: particular importance of the market due to long-term traditions of trade, originating from time before the revolution, between Northern Norway and Russia; closeness of Russia to the home market; relatively new market, stimulating competition between Norwegian seafood suppliers; terms of payment that assume payment in cash by Russian importers immediately on the delivery.

Finally, the unsolicited orders from the Russian importers played the significant role in the decision to enter the Russian seafood market.

4.2.2 Barriers and obstacles

The first mentioned and discussed barrier against working with the Russian seafood market was unpredictable and uncontrollable behaviour of the Russian veterinary authorities. This problem is seen as particularly urgent after the ban of imports of fresh Norwegian salmon and trout in the Russian market came in force in January this year. In this connection there were given the following comments:

The problem is that Russian veterinary authorities say that Norwegian fish is full of heavy metals, and it's very strange way for them to do it, because Norwegian fish has been tested in Norway and several countries, and they don't find the same levels as the Russian veterinary authorities do. But even if it IS the problem and Norwegian fish is full of heavy metals, then it's necessary to ban frozen fish too, because it's the same fish!

In the opinion of the respondent the ban of imports of fresh salmon and trout from Norway was not the political action, but the way of earning money, because the Russian veterinary authorities introduced the double checking of Norwegian fish and this meant double payment by Norwegian fish producers and exporters.

Concerning the corruption at the customs, it was not considered to be the particular problem for the company Volden Group A/S, as far as it's importers who have to deal with customs authorities. The interviewee pointed out:

I don't think there is so much corruption at the customs. I think it has improved very much.

But due to the fact that company Volden Group A/S is not involved in the customs procedures itself, the respondent had little to say about customs regulation as the source of barriers for Norwegian seafood companies.

The problem that was mentioned as indirectly influencing the company's activity related to Russia – the new procedure of obtaining import licenses in Russia.

Importers have to apply for the new license every year. Norwegian exporters just apply once and they pay not the big sum for the license annually afterwards. Quite long period of waiting for the new license makes some of the Russian importers very stressed, because they need this permission. Indirectly, it influences me as the exporter, but in general, I don't consider it to be the big issue.

The main barrier against entering the Russian market, viewed by the interviewee, is the legal system, which

... is not following up the positive changes, which occur in Russia. Very strict legal system is essential for appropriate capital functioning to secure that someone is not getting the monopoly power. Very strict legal system is essential for real capitalistic economy. In my opinion, the major problem in Russia is that you've got a lot of freedom, but the legal system was not put into place.

On the additional question if socio-cultural characteristics were viewed as the source of barrier against entering the Russian market, the negative answer has been got.

I find Russian people very nice, they are very similar to people from Northern Norway, very open-minded, friendly, hospitable, BUT still there is a lot of things to be improved in the business relationships between Norway and Russia, first of all, in terms of legal regulation.

Language is not considered to be the problematic issue neither,

... because all the Russian companies have at least one employee in their staffs, who speaks English. Situation with English in Russia is even better than in Spain! I think the young generation in Russia is making the very big progress in it.

4.2.3 Choice of entry mode

The company Volden Group is using direct exporting mode, acting through the Russian importers as intermediaries, who are mainly concentrated in Moscow and Saint-Petersburg.

We are in the second level of market players' system, what means that we don't have direct access to the consumer level: retailing sector and HoReCa¹.

Answering the question about choice of entry mode, the respondent pointed out:

In order to avoid main problems related to weak legal system in Russia, our company prefers to use just exporting mode.

The interviewee noticed that there are some Norwegian seafood companies, which act through established representative office in Russia. According to the respondent's words, founding representative office in host country can give one major advantage – being close to the final customers and, therefore, better service for them. But the interviewee concluded that firms, using representative offices in Russia *can have better results in their activities, but they don't have better payment.*

Though the company Volden Group AS doesn't have own representative office on the territory of Russia, the main strategic goal is to follow the customers (importers) as much as possible. This is realized by means of promotion relationship marketing, what means that the company prefers to maintain relationships with existing key customers, rather than to serve the prospective customers.

Answering the question about future of use of more sophisticated entry modes, such as, for example, foreign direct investments, the respondent said:

We possibly could see even faster development of seafood trade between Norway and Russia, but from the Norwegian side, I can say that I will not dare to put my money into Russia, because, for example, if I have some disagreement with my Russian partners, where should I go to? Legal system is the main obstacle against use of more sophisticated entry mode while entering Russia. It should be much more regulated.

According to the interviewee's opinion, for SMEs², which can not afford to hire the best lawyers in cases of troubleshooting while doing business in Russia, the clear and sound investment plan, clear strategy, and checked reliable Russian partners are the essential pre-conditions for investing into Russia.

¹ Hotels, restaurants and catering sector.

² Small- and medium-sized companies

Ones, who are succeeding with investments into Russia, are those who play all the things by books, are very strict with all things and do everything as correct as it's possible, so it would not be possible for Russians to come and do some tricks.

4.3 Hallvard Lerøy A/S

The company Hallvard Lerøy A/S is one of the principal companies of Lerøy Seafood Group ASA. The organization chart of the Group is presented in Appendix 5. Since its establishment the firm has been a pioneering enterprise within the number of fields in the Norwegian fishing industry. The main strategic focus was always on the development of markets for fresh and frozen fish products, and the company has frequently led the way into new markets or been the first to commercialize the new species. Products are exported to 49 countries from the head office in Bergen with Japan the leading destination followed by France and Sweden. But the fastest growing markets over the last years have been Russia and Poland where exports of traditional products such as herring and mackerel and also some whitefish have been very successful, but increasingly also salmon and salmon trout. The product range is mainly value added products such as fillets, portions, and fresh products while frozen products form a more limited part of the business.

Hallvard Lerøy A/S has built a supply network of partners extending along the entire length of the Norwegian coastline, including fresh fish plants, refrigeration plants, fish farms, packing stations, as well as packaging and processing plants. The logistics department coordinates production and harvest planning, contract negotiations, dispatch of orders, customs clearance of goods, and actual transportation to importing countries, chartered by air, sea, road or rail. The sales organization is divided into 3 different departments. Each department consists of market teams. The department of International Trade consists of the following teams: fresh seafood, frozen seafood and frozen seafood for the industrial market. These teams operate worldwide with all kinds of seafood products.

4.3.1 Motivation

Among the reasons for entering the Russian seafood market the following ones were pointed out:

1. Big market in terms of the population size.

2. Growing potential that is reflected in the growing purchasing power of Russian consumers. Consumer sector is experiencing the growth. The processing industry is in the stage of strong expansion both centrally and in the regions, thus, strengthening the need for tighter relationship with its Norwegian seafood suppliers.
3. Big demand for seafood products from Norway due to their established reputation in Russia as experienced seafood exporter that offers high-quality products. Norwegian Seafood Export Council is the leading organization that actively promotes the Norwegian seafood abroad, thus contributing to the process of constructing positive image for the Norwegian fish products.

Answering additional question about some new motives or perceived opportunities offered by the Russian market after having entered there, the interviewee gave the positive response. “More opportunities for segmentation” were underlined as the main positive aspect, which was seen after starting working with the Russian market. The respondent gave the explanation:

There are still importers, who are very important players in the Russian market, but we saw the potential in the growing segments, such as retailing and industrial segments. And even though we work through importers in Russia, we try to produce and promote different products for different segments within the market.

4.3.2 Barriers and obstacles

On the stage of exporting the interviewee doesn't see any significant barriers against working with Russia.

Russian importers come to Norway and buy directly from Norwegian exporters, arranging most of the transportation themselves. So, for us as exporter there are no some important problems, connected with work in the Russian market. But sometimes there can be the shortage of cash flow in the market and liquidity of money, and this could increase the risks of being exporter in this market.

Answering the additional question if the risks of doing business in the Russian market are higher than in the other markets, the company works with, the interviewee said:

Yes, from the point of view of legal environment – it's less secure than elsewhere. For example, insurance companies (that sell risk insurance to the companies) are either not very enthusiastic about involvement in Russia or they ask higher price for their services when it concerns Russia.

4.3.3 Choice of entry mode

The Hallvard Lerøy A/S company is using the export mode for working with the Russian market.

Today our company doesn't participate in any other activity in the Russian market rather than exporting.

The firm is working with the Russian importers as intermediaries.

Today there are 30-40 companies, importing seafood from Norway. The 10 biggest importers probably control more than 80% of the market as a whole.

Answering the question about reasons for choice of exporting as the entry mode for Russia there was got the definite reply:

It's the first and easiest step to do, when the market is unfamiliar. Main reason is because exporting represents the lower barriers to enter the markets. The strategy of the company is to have exactly the same risk policy in all the markets, it operates in – we don't take bigger chances in the Russian market, than in any other market, we're involved in.

So, exporting was just natural choice for entering the foreign market, what is compatible with overall risk policy of the company Hallvard Lerøy A/S.

But we are considering all the time when it's the right moment to enter Russia with the establishment within the host country.

According to the information, obtained from the respondent the company could think about establishment of own distribution system in Russia.

If we establish our distribution, it will give us advantages. By controlling distribution inside Russia, Hallvard Lerøy A/S could build up a strong connection with

the end consumers in Russia. Nowadays, it's the importers and the Russian producers, who communicate with the final consumers within retail and HoReCa sectors in Russia.

4.4 Nergård A/S

Today Nergård is one of the biggest Norwegian exporters of seafood. The products are exported to the majority of West European markets, USA, China, Egypt, Baltic States, Ukraine, Belarus and Russia. Nowadays, it's one of the biggest fish concerns in Norway with annual turnover approximately 1,4 billions NOK and 600 employees (Nergård report, 2005). The firm offers wide range of raw and processed fish products in the local and international markets: white fish, pelagic fish such as herring and mackerel, salmon and prawns.

4.4.1 Motivation

The bulk of Nergård's exports to Russia is pelagic fish - frozen herring. According to the information that was obtained during the interview, the decision to enter Russia 10 years ago, was taken on the basis of wish of the company to enter pelagic fish industry and consideration Russia as the major market for pelagic fish.

We decided to enter pelagic fish industry 10 years ago. In order to enter the pelagic industry Russia is "must" ... not only motive, but "must"! Besides, we hoped that exports of herring would open the door for our other products in the Russian market.

It's not surprising that the company, which is involved in exports of herring decided to enter the Russian market with its products. Russian consumption of herring has the long history, and Russia has become the most important market for exports of Norwegian herring. It was time after the collapse of Soviet Union in 1991, when Norwegian seafood exporters opened interesting and fast growing Russian market for pelagic fish.

Nowadays, Russia is the biggest market for the Norwegian herring. The bulk of exports are still frozen fish, but there is visible development of demand for fillets. One of the effects of such growth is the expansion and modernization of the Russian processing industry, which is now re-established closer to the main areas of seafood consumption. Besides significant modernization of old processing factories, which were

provided by updated facilities, the new processing plants in Moscow and Saint-Petersburg regions were constructed.

4.4.2 Barriers and obstacles

Speaking about entering the Russian market, the respondent pointed out:

We had international experience in the other markets before entering to Russia. We realized that we were about to enter the different world, different market than markets, we used to work in (EU markets), where the regulation, culture and payment routine is more or less the same as in Norway. I want to repeat that to start selling to Russia was like entering the new world for us.

Among the perceived barriers related to entry to the Russian seafood market the following ones were pointed out as the most important for the company:

1. Risks for failure in payments
2. Language problem
3. Culture which is different from the Western European culture
4. Veterinary regulations

But since the company Nergård A/S has entered the market, some perceived before barriers disappeared. For example, the differences in way of thinking, culture, business culture proved to be not so significant, as it was perceived before.

But the risk was there - we have lost and we have won, lost and won again etc. But still it is a lot of useful experience!

The respondent also pointed out the unpredictability and instability of the Russian legal environment as the source of problem for working with Russia.

The legal environment in Russia is very different from that one, which exists in Western Europe. But I would like to emphasize that need for herring has existed for a very long time, and as long as there is demand for the herring, sales go on despite all the barriers that unpredictable legal environment creates.

4.4.3 Choice of entry mode

The company Nergård A/S uses exporting mode for trading with Russia. The firm is trading via Russian importers and fish producers as intermediaries.

Importers are mainly located in Moscow and St.Petersburg. We started for 7 years ago to trade via importers, located in Murmansk and the other cities, but over the years it has developed that we mainly sell via importers, who are located in, first, in Moscow and, secondly in St.Petersburg.

Answering the question about reasons for choosing exporting as entry mode for Russia, the respondent pointed out:

We chose entering the Russian market via exporting, but not, for example, establishing representative office in Russia, because our philosophy is the believe that we are good in doing the things that we CAN do - fishing, freezing of seafood and selling it out from Norway. The knowledge of importing, distributing in Russia, not to mention all these changes in legal regulation is the knowledge of those, who is already there. So we have made the clear fence between what is our knowledge and what is their know ledge, and we wouldn't interfere, because it's beyond our core business. We follow the same strategy for all the markets we work in and all the products we export.

Thus, the choice of entry mode to Russia is seen as compatible with overall strategy of the company, which presumes concentration on core competences, such as production of seafood in Norway and organization of sales out of Norway. The interviewee didn't mention perception of higher risks related to involvement in trade with Russia as factor influencing decision on company's entry strategy to Russia.

4.5. Norway Prawns A/S

Norway Prawns AS is a marketing and export company for cooked and peeled cold water prawns (*Pandalus borealis*), jointly owned by Stella Polaris AS and the Nergård Group. It is responsible for all sales and marketing of prawns from the mentioned above companies. The firm Norway Prawns A/S was earlier known as Norske Reker A/S – the joint venture that encompassed all the large Norwegian prawns producers: Uniprawns A/S, Stella Polaris A/S and Johan J. Helland A/S (belongs to Nergård A/S). The company represented joint investment, aimed at bringing the

product – peeled prawns to the Russian market. Norske Reker AS was responsible for the development, marketing and promotion of the brand Troms in Russia. Nowadays, there as it was mentioned there is no longer such joint venture, but the company Norway Prawns has the same functions related to sales of Troms prawns to Russia and other markets.

It was decided to start brand-building for Troms in the Russian market. Prawns under the brand Troms are positioned as the premium quality product. The firm works very tightly with Norwegian Council for Seafood (Eksportutvalget for fisk), when it concerns programs of generic marketing for its product. According to the information, obtained from the interview, the situation is now very favorable for the company as far as it is the only Norwegian exporter of prawns to Russia. Therefore, it gets all the budgets that are allocated by Norwegian Council for Seafood promotion programs for Norwegian prawns in the Russian market.

4.5.1 Motivation

The wish to spread the efforts, thus, diversifying risks, was mentioned as the main reason for entering the Russian market. The main initial stimuli for entering Russia was decreasing sales of the product in the other foreign markets, the company Norway Prawns A/S is working with.

The main markets for cold-water shrimps are United Kingdom, Sweden, EU. There was the situation when the company started to have very big losses in the English market, so it was necessary to diversify risks.

Though the initial motive for entering the Russian market was reactive, the decision to enter Russia was also based on the interest of the firm to explore new market opportunities.

Russia was chosen for entry because of the rapid growth of the market, moreover, there were seen positive results with export of Norwegian salmon and trout from before. So, Russia was chosen as the good aim for spreading efforts because there was not so intensive competition between exporters from the other countries (Iceland, Canada) and exporters of warm-water shrimps.

Besides, market researches showed the popularity of Norwegian seafood, in general, and interest for Norwegian prawns, in particular, and these Russian market

opportunities stimulated the intention of the company to enter Russia. Moreover, low level of supplies from the local producers and high dependence of the market on the imports of prawns was perceived as the positive factor on the stage of making decision about entry to the Russian market. The other motives include fast development of retailing and HoReCa segments, which are seen as the very profitable distribution channels, and positive results from studies of the Russian consumers behaviour.

4.5.2 Barriers and obstacles

Several perceived problems related to business activity in Russia were pointed out by interviewee as the most significant at the stage of entry to the Russian prawns market.

The first barrier is connected with customs duties for exported shrimps. According to the Russian Tax Code, the customs duties for imported shell-on prawns is 20% from the customs value of 1 kg. of prawns. There is the other situation with peeled prawns, which are the export item for Norway Prawns A/S.

For peeled shrimps it's fixed duty – it was US 2,5\$ before, now it was raised till US 3\$ for 1 kg. We try to keep the price for our intermediaries as low as possible, but due to the existence of several distribution levels the price for final consumer rises significantly, making the product less affordable for them.

The other problem is related to the first one in some way. It's connected with underdevelopment of the market of peeled shrimps and low culture of consumption of this product. This situation is reflected in relatively low volumes of sales of the product in the Russian market.

Demand for peeled shrimps is not big enough yet. Basically, the Russian consumers got used to buy shell-on prawns. Approximately 80% of the market is occupied by shell-on prawns and only 20% by peeled prawns, so the volumes can't be compared. The market for peeled prawns is not developed in Russia yet, and this is the main problem.

The low sales volumes of peeled shrimps can be explained, first of all, high competition from shell-on prawns (exported mainly from Denmark) Nowadays, there is high price sensitivity of the Russian prawns consumers, and the percentage of the Russian consumers, who prefer to pay higher price for the better quality of the product,

is still remaining not big enough. But conducted by the company researches showed that there is great potential for development of demand in HoReCa segment, where the main choice criteria are: the product taste, the country-of-origin and reliable supplier, who observes the transportation and storage regulations.

There is high competition from the Danish shell-on prawns exporters (price is the main factor influencing this situation) As far as purchasing power of the majority of consumers is still not high enough, they're orienting on the price while choosing the product. Of course, most consumers prefer to buy 1kg. of shell-on prawns that cost approximately 80 rub. (after tinning and peeling, there is 65% of discard) , while 200gr. pack of peeled shrimps costs approximately 140 rub. So, the price is the prevailing factor that influences decision about purchase, and quality is often overlooked. Danish shrimp exporters ask the lower price for their products, but they offer the products of lower quality (glazing is too high, sometimes 20-30%).

The third problem concerns the difficulties in the relationships with retailing chains in Russia, who are the final consumers of the exported by the company product.

There is the well known trend of rapid development of retailing chains in Russia. On one hand, it creates the opportunities for the foreign players, but on the other hand, these chains are so powerful (because the market of retailing chains is not saturated in Russia) that they are oriented on taking one-side decisions, but not co-operation. In the other words, they have the power for making suppliers follow their terms.

4.5.3 Choice of entry mode

As it was said the company Norske Reker A/S, which is the ancestor of Norway Prawns A/S, was established as the joint venture of three biggest prawn producers, which encompassed their efforts to enter the Russian market with their products, Norske Reker A/S was supposed to develop and execute marketing programs related to the new brand of prawns – Troms, while three companies in strategic alliance covered sales function themselves. As it was explained during the interview, such strategic alliance was essential for entry to the Russian market, because none of the companies had enough resources to do this step alone. Despite the positive influence of synergy effect from such strategic alliance while entering the Russian market, in the future such organizational form resulted in range of problems, the main of which was

interconnection of interests of three different prawn producers when it came to sales areas.

It was very difficult situation, because, each producer had to find its own importers and negotiate with the importers about the final consumers (retailers). The task was to separate supplies of different producers in this alliance between the different retailers in Russia (Moscow and St. Petersburg), but it was extremely difficult to do, acting through the importers. We spent a lot of time negotiating with our importers, trying to persuade them work in this way. To sum up, it was rather complicated structure.

Nowadays, this structure doesn't exist. Norway Prawns A/S is the joint venture of the companies Stella Polaris A/S and Nergård A/S. But all sales to Russia are still conducted via the Russian importers.

We are working now with two Russian importers: "Kairos", which sales to retailing chain "Metro Cash& Carry", and "Severnaya company", which sales to supermarket chains "Perekrestok" and "OK".

According to the information, obtained during the interview, such organizational structure was chosen, because of established situation with distribution in the Russian market. Though the final consumers of the company are retailing chains, it's still impossible to avoid intermediaries (importers).

Nowadays the retailing chains (final consumers) are not involved into importing, they prefer to act via Russian importers.

Answering the additional question about perspectives related to establishment of representative office in Russia, the respondent pointed out one undoubted advantage of this mode.

The main advantage it's nearness to the final consumers, thus, the better control over the situation. For example, it's difficult to control the actions of the Russian importers, while being in Tromsø.

The better control over the situation was already mentioned as the main advantage of establishment of representative office in Russia. As far as the company Norway Prawns A/S is involved into contacts with their end customers – retailers – the presence of the firm in Russia could provide tighter co-operation with them, which can serve as the source of competitive advantage for Norway Prawns A/S.

4.6 Key informants

There are two key informants – experts in the area of internationalization of Norwegian companies, who participated in the current empirical study. The information, obtained from them helped to highlight some aspects that were left beyond case studies or to get additional primary information on the topic.

The first key informant is Knut. J. Borch, who is Managing Director in Norum Ltd., which is a private management company, responsible for operating the North West and West Russia Regional Venture Fund I and Fund II on behalf of the European Bank for Reconstruction and Development (EBRD).

Norum Ltd.,s investment strategy is to invest into Russian medium-sized companies, conducting industrial and service-oriented activities, which have high growth potential, proven track record, substantial turnover and multiple exit opportunities. Norum Ltd.'s main focus is on the following sectors: consumer goods with a specific focus on food sector industries, retailing, forestry, technologies, media and industrial manufacturing. The current portfolio contains the company ROK-1, which is the leading fish processing plant in Saint-Petersburg (Russia). The company is the largest producer and distributor of processed fish in North West Russia and one of the largest producers of surimi-based crabsticks in Europe.

The interview with Knut J. Borch, who is acknowledged expert in business investment area, helped to provide the information on use of the entry mode such as direct investment for entering Russia. As it was mentioned, despite the fact that now this entry mode is not comprehensively utilized by Norwegian seafood companies, growing number of examples of Norwegian investments to the other sectors of Russian economy (telecommunications, food industry,) allows suggest the promising future for this entry strategy in the fishery as well.

The other key informant, participating in the study, was Frode Nilssen, who is Senior Researcher in Fiskeriforskning in Tromsø. He knows Russian business and political environment quite well as far as he has already been studying it for 15 years.

The main sphere of his research interests includes the institutional relationships in the Russian seafood market, organizational buying behaviour in Russia as country with economy in transition and distribution structures. He is the author of several scientific papers on these topics, and his comprehensive knowledge in the area of seafood trade between Norway and Russia makes him extremely important informant in current study.

4.6.1 Motivation

Answering the question about what makes the Russian market attractive for the foreign investments, the first informant emphasized Russian market potential. The potential supplemented by the growing purchasing power of the Russian consumers is the main motive for the Norwegian companies to enter Russia, in his opinion. The other factors that were underlined as stipulating attractiveness of the Russian market for Norwegian companies are the following ones: solid economic growth, high-educated and hard-working labor force and relatively low labor costs.

In opinion of the second informant, the main overall stimulus for entry of Norwegian seafood companies to Russia are big and growing Russian market, especially for pelagic fish such as herring.

4.6.2 Barriers and obstacles

Speaking about barriers against investments or problems, connected with business activity in the Russian market, the informant pointed out that Norwegian investments into Russia are restrained mostly by existence of wide range of stereotypes related to Russian business and cultural environment. The most comprehensive stereotypes concern power of mafia and oligarchs, alcoholism, prostitution, lack of transparency in business sphere and unstable legal environment in Russia. From the own work experience the respondent gave example that when NORUM searches investors for the particular companies in Russia, there are difficulties, related to the perceptions of Russia.

The Russian company has good portfolio, clear strategy, sound management, but when investor hears word "Russia" he/she rejects the proposal to make investments. (Knut J. Borch)

The other problem, which is connected to investors rather than with Russian environment, is lack of clear investment strategy, developed for doing business in Russia.

This problem can be called lack of understanding how powerful and requiring Russia can be. It means that before making decision about entry to Russia the foreign company should realize that this entry requires more time and resources, than entry to the Western markets, where company, probably, is already established. (Knut J. Borch)

Lack of understanding of the Russian business culture was also mentioned as the source of problems for Norwegian firms doing business in Russia. Commenting on the peculiarities of Russian business culture, the interviewee pointed out two main moments.

Russians are very impatient. They want to become rich tomorrow (i.e., immediately). Hence, they are even a little bit aggressive in their manner of communicating with representatives of foreign companies. (Knut J. Borch)

There is extremely big role of Director in the company. No decision can be taken without approval of Director. He is the main decision-maker in the Russian company. And at the same time he's hard accessible (it's necessary to come through numerous amount of levels in the company in order to reach Director). Time-consuming bureaucracy is one of the reasons, why representatives of foreign companies give up on the early stages of the process to establish business with the Russian company. For successful business it's necessary to reconstruct the organization in the way of building a team of decision-makers, which consists of marketing, financial etc. specialists). (Knut J. Borch)

In informant's opinion, it can be difficult to change the structures with management style from the past. But it was underlined that the young generation of managers in Russia are well-educated, ambitious and motivated. And the growing number of companies with updated management systems, which are closer to Western management style, will stimulate the growth of foreign investments into various sectors of Russia's economy.

Answering the question about ways of overcoming the mentioned problems associated with entry to the Russian market, the informant mentioned the importance of showing the successful cases of foreign companies that have already made investments into Russian economy. According to the respondent, it's the most efficient way of overcoming or decreasing the influence of the aforementioned stereotypes about doing business in Russia.

In general, the informant has positive experience from working with Russia. The foreign investors feel welcomed to Russia, but it takes time to win trust of Russian partners. Based on the own experience of working with investments into the Russian market, in his opinion there are no problems for foreign investors with repatriation of dividends or some other profits out of Russia.

Answering the question about problems associated with entering the Russian seafood market, the second participant pointed out currency and banking issues. In his papers he often mentioned that problems with payment for exported seafood, related to bad functioning bank system in Russia are often perceived as the barrier against entry to Russia by Norwegian seafood firms. Long-term financing of exports to Russia requires quite big own capital from the company.

Besides, the respondent mentioned unclearness of customs regulation as the source of entry barrier, related to Russia. The other issues, which were mentioned as insignificant problems, perceived by Norwegian fish exporters concerning work in Russia, were logistics problems and language. Answering the questions of possible ways of reducing the influence of mentioned barriers, the interviewee raised the issue of institutional set up in Russia.

It is a matter of time for the higher- order institutions in Russia to settle, evolve & mature. (Frode Nilssen)

The interviewee defines these institutions as “the external working conditions of the industrial organizations (the laws, regulations and norms) that regulate social interaction” (Nilssen, 2002: 44). In the other words, the problem is in the fact that Russia as the country with transition economy nowadays is exposed to influence of institutions from two opposite systems: planned-based economy and market-based economy, - and the problem is sometimes the institutes that are required for normal functioning of market economy, are not in place in Russia. After the breakdown of Soviet Union there are still issues, inherited from the command economy that hinders

development of market-based economy in the country. First of all, it concerns bank system and private property rights.

4.6.3 Choice of entry mode

The main conclusion drawn by the respondent was that entry to Russia is more time-consuming and, thus, more capital-consuming, than entry to the majority of Western European markets. For entry to Russia via investments, a company has to work out the clear, sound strategy which would encompass three main components. First, it's clear time framework for entry. Secondly, it's bright management team. Finally, it's necessary capital resources. The expansion to Russia requires clear well-thought strategy, what is definitely capital intensive.

Answering the question about entry mode, utilized by Norwegian seafood companies for work in the Russian market, the second respondent pointed out that today Norwegian seafood firms prefer to use exporting via Russian importers, and some companies establish representative office in Russia. In his paper dealing with research of distribution system in the Russian market the interviewee gives possible explanations for the fact that all exporting to Russia occurs via Russian importers as intermediaries. The Russian retailing sector or producers prefer to buy from the Russian importers, but not directly from Norwegian exporters due to three possible reasons: lack of knowledge of importing, lack of own freezing facilities and lack of enough capital (Nilssen, 2005). The main advantage of use of this entry mode is seen in lower risks associated with activity of Norwegian seafood companies in Russia.

5. Discussion and implications

This chapter presents discussion of the results, obtained from the empirical study with their generalization to the theory, represented in Chapter 2 of this paper and findings of previous studies on the topic. The structure of this chapter follows the general pattern: first, the motivation for entering the Russian seafood market is discussed; it's followed by analysis of barriers perceived by Norwegian seafood companies against involvement into work with Russia; finally entry modes, utilized for entry to the Russian seafood market are discussed. Possible implications for the future research in the area are given in the final section of the chapter.

5.1 Introduction

The current research tried to give the overview of the entry modes, chosen by Norwegian seafood companies for penetrating the Russian market. The process of making decision on the entry strategy was considered as dependent on two kinds of factors: motives for entering the Russian seafood market and perceived barriers, or obstacles associated with such entry.

Thus, the main objective of empirical study, represented in the paper, was to give the detailed answers to range of the following research questions:

1. What are main motives for fish export from Norway to Russia?
2. Which main “external barriers” (based on the Russian market) are perceived by Norwegian fish companies?
3. Which entry strategies do Norwegian seafood companies choose when entering Russia?

The theoretical part of this paper deals with consideration of academic literature on the topic as well as results of previous descriptive studies. It's finished with presentation of conceptual framework, which shows interconnections between these research questions, and it was constructed for the current research. The following sections represent the analysis of obtained findings, corresponding to each of three formulated research questions.

5.2 Motivation

According to the findings of the current study, the main overall motive for entering the Russian market is wish to expand in the big and growing market. The main factors, which stipulate the growing potential of the market, are rapid and steady economic growth and interest for Norwegian seafood among consumers. However, not all the respondents agreed on such factor as growing purchasing power of the Russian consumers. In the classification of motives for company's internationalization, offered by Albaum, Strandskov & Duerr (2002), this main motive belongs to group of stimulus, originating from company's environment. According to the second classification criteria, this motive belongs to the group *foreign market opportunities*, which is based on the firm's interest to explore new foreign markets (Albaum, Strandskov & Duerr, 2002).

In addition to aforementioned motive, small home market that is unable to consume all the produced seafood was called among the factors, stimulating firm's decision to enter the Russian seafood market. The wish of expansion to the bigger market, strengthened by the geographical closeness of the Russia, predetermined decision of Norwegian seafood companies to enter Russia. As it was pointed out in the theoretical chapter of this paper, *small home market* is quite popular stimuli, which makes firm search ways for expansion abroad (Hodne & Rosendahl, 2000; Albaum, Strandskov & Duerr, 2002; Solberg, 2005). It was conceptualized for the purposes of current empirical research as one of the most important motives for Norwegian firms, taking decision about entering the Russian seafood market. As far as this stimuli reflects internationalization of a company as the response to so called push factors, it belongs to the group of reactive stimulus in the classification of Albaum, Strandskov & Duerr (2002).

As the empirical case study showed, "small domestic market" in combination with the other reactive motives such as *unsolicited orders from Russian customers*, *excess capacity of resources* and *risk diversification* form the significant group of factors, which stipulate the wish of Norwegian seafood companies to enter the Russian market (Hodne & Rosendahl, 2000; Albaum, Strandskov & Duerr, 2002). It's necessary to underline that expectations concerning these results, were fulfilled, and these findings doesn't reflect any industry specifics (fishery) as far as they are completely compatible with the results of previous experiential studies on the topic of company's internationalization in the other sectors of economy (Roudchine, 2002; Dahlen, Forsman & Leven, 2003). However, based on the fact that all these studies were taken at different points of time it's possible to draw the conclusion that aforementioned

motives steadily maintain their urgency for the companies, considering possibility of internationalization.

Rapid development of processing industry, retailing and HoReCa segment is perceived by Norwegian fish companies as the positive trend. In the literature these aspects are included into the comprehensive range of factors, stipulating the attractiveness of host market (Helanterä & Salmi, 2001; Albaüm, Strandskov & Duerr, 2002).

As the results of case studies showed, support to export of governmental organizations such as Norwegian Export Council for Seafood (NECS) and Innovation Norway, also influenced decision of fish companies to enter the Russian seafood market. In the academic literature on internationalization process of a firm such stimuli is called as *change agents* (Albaum, Strandskov & Duerr, 2000). Mentioned organizations are aimed at active promotion of export activities of Norwegian firms. For example, assistance, provided by them to Norwegian seafood companies, concerns not only any direct financial support, but also publishing basic foreign market data, obtained from market researches and provision of reports on individual companies in the industry. Norwegian Export Council for Seafood is responsible for generic marketing of Norwegian seafood all over the world and assisting Norwegian fish exporters with access to various foreign markets through providing them with detailed information on the various aspects of competitive situation there. One of the most significant tasks of NECS is to create and maintain good reputation of Norwegian seafood worldwide, and according to results of various researches on consumer behaviour, well-known statement “The best seafood comes from Norway” is greatly supported by Russian purchasers.

To sum up the findings on the first research question, it's necessary to point out that motivation of Norwegian seafood companies that entered the Russian market has basically proactive nature. In the other words, entry was driven by perceived attractiveness of the Russian seafood market. This attractiveness is based on the size of the market, geographical location and perceived Russian market opportunities. Such findings were relatively expectable due to the fact that Russian market is comparatively “young” one in terms of being opened for foreign exporters. As it was mentioned in the previous chapters, the Western companies got access to Russia in early 1990s. It's not amazing that prevailing motives for entering Russia that time were wish to be supplier in the new unsaturated market, which stimulated competition among the foreign firms. In the academic literature this motive is often described as *wish to exploit new opportunities and challenges* (Hodne & Rosendahl, 2000).

Based on the review of academic literature, it was expected that motives such as *utilization of a firm's competitive advantages* (seafood of premium quality, what allows require premium price for it) or *belief that entering new foreign markets can give increased profits*, would be mentioned by respondents (Hodne & Rosendahl, 2000). There can be two possible explanations for absence of mentioned factors in answers of the respondents. First, it's possible to assume that these motives are perceived as natural, and, thus, respondents didn't consider necessary to emphasize them during interview. The second assumption is quite opposite and concerns specifically marketing environment in Russia. Aforementioned factors are not perceived as the relevant for entering the Russian market, where growing, but not big enough perceived purchasing power of its customers doesn't allow require premium price for the products and, therefore, there are no opportunities for increased profits for the company. The latter assumption seems to be the most likely in the case of Norway Prawns A/S.

5.3 Barriers and obstacles

The most important barrier against working in the Russian market, as it was found out in the empirical research, is *weak legal system*. Such perceived barrier against involvement into trade with Russia was mentioned by all the participants of current study. It was named as the main perceived factor, restraining development of foreign firms' activities in the Russian market. As the empirical research showed, the range of perceived bottlenecks in the Russian legal framework is quite big: from unpredictability of the Russian Customs legislation and requirements of veterinary authorities till absence or unclearness of system of laws, defending foreign direct investments. Such finding is in conformity with the theory. In the literature on international marketing the problem of unstable legal environment is often mentioned in connection with entry to Eastern European country (Johansson, 1997; Brouthers, Brouthers & Nakos, 1998; Bennett & Blyth, 2002; Marshall, 2003).

This difficulty has historical roots which lie in the fact that Russian economy was centrally-planned for a long time, and now it's still on its way to market-based economy. The process of transition is stretched in time and requires gradual adjustment of higher-order institutions that influence business environment (Nilssen, 2002). It's necessary to point that main problem here is that change of old higher-order institutions is not following the tempos of transition that occurs in Russia (Nilssen, 2002). This dimension of barriers includes still undeveloped banking system, lack of information

about the market, unpredictable and difficult customs regulation and complex requirements to veterinary documentation – all the factors, which make the *risks of working in Russia higher than domestic risks* (Johansson, 1997; Helanterä & Salmi, 2001; Albaumb, Strandskov & Duerr, 2002; Benneth & Blyth, 2002). Thus, this study confirmed the results of previous empirical studies and theoretical propositions, described in the literature (Roudchine, 2002; Dahlen, Forsman & Leven, 2003). However, the aforementioned barrier is likely to become urgent for the studied companies only if they are considering the change of organizational mode for entering Russia in terms of use more sophisticated strategy that presumes deeper involvement in the Russian market.

There were mentioned some other market- and country-specific barriers, which are unlikely to greatly influence the activities of studied companies in the Russian market. For example, such problems as tariff barriers or problems, stipulated by socio-cultural characteristics, which are comprehensively discussed in the literature, are seen as insignificant for the activity of studied companies (Young, 1989; Johansson, 1997; Helanterä & Salmi, 2001; Albaumb, Strandskov & Duerr, 2002; Bennett & Blyth, 2002; Marshall, 2003). For example, theory uses to show that corruption and bureaucracy are the common problems in Russia. According to publications, based on the other researches in the area (Helanterä & Salmi, 2001; UK Trade&Investment Report, 2004; Ivlev, 2005), there is no deny of existence of organized crime in Russia, but its influence is much more exaggerated in the media. Corruption can also be the reality, but Russia is not the only country exposed to it, and there are examples of foreign companies, which can operate in Russia without having to give bribes. However, these issues were not raised by participants of the current study as serious obstacles. The necessity of constructing and following clear and sound strategy for entering Russia, was emphasised as the main means to deal with such problems, if they exist.

It's also necessary to notice that after the companies have entered the market and got some experience of working there, many of the perceived earlier obstacles against doing business in Russia disappeared. For example, this concerns socio-cultural differences and language problems (Brouthers, Brouthers & Nakos, 1998). The respondents took into consideration the fact that Russia is making considerable progress on the way of approaching its business environment to the Western one and at the present stage of their activity in the Russian market, Russia is viewed as hardly different from most business locations. Such statements are the confirmation of discussions in the latter literature on the topic, where the trend of approaching of Russian market to the Western ones is described (Helanterä & Salmi, 2001).

To sum up written in this section, it's necessary to say that there are no barriers that discouraged studied companies from entering Russian market. The size and growing potential of the market are very powerful stimuli for Norwegian seafood companies' entry to Russia. As it was emphasized by all the respondents, fundamental Russian market opportunities outweigh the possible difficulties related to work in it.

5.4 Choice of entry mode

As the research showed, the choice of organizational mode for work in Russia occurs according to *strategy rule*, which assumes that firm analyzed various entry modes before adopting one particular for entering Russia (Albaum, Strandskov & Duerr, 2002). As it was mentioned, studied firms had experience of internationalization to the other foreign markets before entering the Russian one and following the same risk policy in all host markets, nevertheless, they can use different organizational modes in different markets. It allows reject *naive rule*, which presumes use of the same entry mode in all the markets, where a company internationalizes to.

The findings of empirical research illustrated that nowadays the activity of Norwegian seafood companies in the Russian market is connected with use of *exporting modes* (Schuh & Holzmuller, 2003). Already on the stage of collecting information about prospective participants of the study it was noticed that majority of seafood firms are involved into exporting to Russia. Further, during empirical research it was found out that seafood companies are involved into direct exporting. This means that firms don't use intermediaries, based in Norway, but trade via either Russian importers or seafood producers. The importers are representatives in the host-country market and their main function is to connect producer and the foreign market (Solberg, 2005). In the academic literature use of importers is explained by the existence of the factors such as geographical distance and cultural differences, which hinders direct contact of exporter with the host market (Young, 1989; Albaum, Strandskov & Duerr, 2002; Marshall, 2003; Solberg, 2005). The findings of conducted empirical research showed that companies would prefer to establish direct contact with their final customers (retailers), but this is hindered by the established practice of the Russian retailers to buy from the Russian importers. This finding is confirmed by the results of previous researches in the area (Egeland, 2004; Nilssen, 2005).

The advantage of such organizational mode is that it is Russian importers, who are involved in the following organization of transportation seafood from Norway and who deal with customs authorities. Therefore, the Norwegian companies avoid many

routines in this connection. Besides, one significant advantage of this scheme of working is that importers use to pay in cash for the production on delivery. However, the “back side of the coin” for the exporter is in low level of control of the host market situation and relationship with the final consumers of its products. All the interviewees pointed out the importance of establishing long-term close relationships with their final customers, especially in the Russian market, which requires bigger commitment in comparison with Western European markets. The respondents agreed that it’s possible to achieve desired level of control over the situation through creating own representative office on the Russian territory.

The findings of the conducted study are in conformity with the ideas of scientific school that considers *entry mode as the chain of establishment* (Johanson & Vahlne, 2003). In academic literature the model, developed by school authors, is often mentioned as *stage-of-development model* (Albaum, Strandskov & Duerr, 2002). As it was considered in theoretical part of the paper, this approach considers internationalization of a firm as evolutionary process that presumes gradual involvement into the host market. Exporting is considered as the first stage of involvement into the foreign market due to low resource commitment and low risks, associated with its use. The popularity of this organizational mode in the Norwegian fish sector can be explained by prevailing existence of SMEs, which can’t afford allocation of significant resources for market commitment and don’t tolerate high risks, related to use of more advanced entry modes.

This approach to the choice of entry mode is also tightly connected with two principal factors: *experiential knowledge* and *psychic distance* (O’Grady & Lane, 1996; Johanson & Vahlne, 2003). The concept of experiential knowledge considers the essential factor, determining internationalization of the firm. It is defined as the knowledge about host market and different aspects of internationalization process, obtained by a foreign firm in the process of working with this market. The experiential knowledge is unique for each particular firm. Thus, the main proposition of the Uppsala-model is that certain company is getting more involved into the foreign markets as long as its experiential knowledge about these markets and use of resources for internationalization increases (Johanson & Vahlne, 2003). This assumption is supported by the results of current empirical study as far as all the respondents mentioned the wish of higher commitment to the Russian market and some of them are considering the other feasible more sophisticated organizational modes for expansion in the market.

The concept of psychic distance was discussed in details in the theoretical part of this study. The main developed assumption is that the more is perceived psychic distance between home and host countries, the more probability that a firm chooses entry mode that presumes low involvement into the work with foreign market (O'Grady & Lane, 1996). Thus, choice of exporting as entry mode to the Russian market can be explained by high perceived psychic distance, especially taking into consideration time of entry. As one of the respondents said "We were about to enter different world", and this was logical to assume right after opening of the market, which was not studied before and the source of information about marketing environment there were either absent or scarce. So, at that period the perceived psychic distance between Norway and Russia was extremely big. But as long as business environment in Russia is getting more similar to the Western ones, what includes gradual amend of legislation and other higher-order institutions, the Norwegian seafood companies are considering the possibilities of use of more advanced entry modes such as foreign direct investments.

5.5 Implications for the Norwegian seafood industry

On the basis of conducted research it is possible to work out several implications, concerning entry to the Russian market. These implications are predestined, first of all for the management of Norwegian seafood companies, considering the possibility of entering Russia. The managerial attitudes towards internationalization play the significant role in steering the strategic management of the company. Thus, one of the main purposes of writing this section is to provide companies with recommendations, concerning the internationalization to Russia.

The main factor, specifying the attractiveness of the Russian seafood market, is its growth. But it's necessary to keep in mind that this growth will last limited period of time and in long-term perspective saturation of the market is expected. Therefore, it will lead to the intensification of competition between the seafood companies, which have already entered the market. In this case, there can be several possible directions of a company development, aimed at the sustaining its competitive advantage. The first one is in deeper penetration into the Russian market, thereby, providing itself with competitive advantage such as closeness to the customers and better control over the market situation. The second solution concerns searching of new segments or niches and, thereby, obtaining the advantage of "first mover" through satisfaction of some specific needs within these segments (Schuh & Holzmuller, 2003). There is also third direction that presumes brand-building, based on the positioning of firm's product as

premium-quality seafood, thus, differentiating it from offers of the competitors (Schuh & Holzmuller, 2003).

The trend of expansion of Western and Russian retailing chains in Russia is also seen as quite positive. The possible implication of so rapid development of final customers is in direct buying seafood products from Norwegian seafood producers without participation of the Russian importers. Therefore, it's necessary to take into consideration that establishing closer relationship with retailers through formation of own distribution chain is the perspective strategic direction for the Norwegian seafood companies.

The current research illustrated that perceived risk of working in the Russian market are still higher in comparison with majority of Western European markets. Nevertheless, there was not discovered any particular barriers, hindering entry of Norwegian seafood companies to Russia. The main solution for coping with problems, associated with work in the Russian seafood market is in development of comprehensible strategy that contains formulated objectives, clear time framework and unambiguous information about allocation of resources, necessary for such entry. Accurate preparations for entry and selection of local partners are particularly essential for the companies, planning to use more advanced organizational modes, when entering the Russian seafood market. Nowadays, in many cases the Norwegian investors just adopt the strategy "wait-and-see" towards the Russian market (Helantero & Salmi, 2001). Such approach is dangerous for a firm and is the reason for failures while working in Russia.

The growing demand for value-added seafood products among Russian consumers makes the strategy of investing into modernization of processing facilities in Russia more vital. In the situation of competition intensification presence in the Russian seafood market can be regarded as "key success factor" of a firm.

The analysis of entry modes, chosen by studied companies, showed that entry to the Russian seafood market is in conformity with the entry modes, described in the academic literature on the internationalization process of a company in various sectors (Schuh & Holzmuller, 2003). In the other words, the entry to Russia is more precautionous due to the described perceived risk, associated with the work of foreign companies there, and companies tend to start with less risky entry modes such as exporting. As long as the business outlook in the Russian seafood market looks more favourable, and competition becomes stronger, presence in the market and active collecting information can be of crucial importance for Norwegian exporters. Therefore, opening of representative or sales office in Russia assists on better

information about the market as well as educating of intermediaries and consumers and providing better control over marketing strategy of the company.

5.6 Implications for the Russian authorities

The study illustrated the existence of objective reasons for choosing precautionary approach to entry to Russia, namely weak legal environment. This is the main factor, restraining development of investment activity of Norwegian seafood companies towards Russia. Absence of transparent system of laws, defending rights of foreign investors, absence of legislation, regulating conflicts between foreign and Russian partners, conflicts between state and business were mentioned among the most problematic issues, reflected into low pace of investment into the seafood sector in Russia. The main task of the Russian authorities of all levels is to continuously amend the legislative framework for attracting foreign investments to the industry. Moreover, it's essential to promote open information support for prospective investors on the successful investment projects with the participation of many international firms, investing into various sectors of Russia's economy such as food industry, banking services, telecommunications and oil industry.

5.7 Limitations and future research

The overall objective of current study is to obtain the deeper understanding of factors, influencing the decision of Norwegian seafood companies to enter Russian market. The main factors, which were studied in the empirical research, are motives for and barriers against entry to the Russian seafood market. Hence, this research can be called descriptive as far as it was aimed at the giving the overview of motivation and perceived problems, associated with entering Russia. Besides, it can be also considered as explanatory to some degree, because it was supposed to study how the aforementioned factors influenced the choice of entry mode.

The limitations of the study mainly concern the sample, which doesn't include firms with various organizational modes, utilized for entry to the Russian seafood market. Inclusion of the seafood firms, using more risky entry modes, would allow expanding the findings by means of comparisons. Thus, it would be possible to make more comprehensive generalization to the theory on the topic.

Due to limitations of the study, related to difficulties related to collection of complete necessary data, this paper can be regarded as the basis for further research on

the topic. In this connection, several possible directions for the future research are proposed.

The first possible direction is related to sample for study. As it was pointed out, current study deals just with companies, which have already entered the Russian seafood market and already have working experience in it. However, it could be interesting to conduct similar research among firms that are on the stage of making decision about penetrating Russia.

Secondly, the interesting direction of deeper research on the topic is in evaluation of performance of the Norwegian seafood companies, which have chosen various organizational modes for entering Russia.

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www.expert.ru – web-page of Russian magazine “Expert”, which is targeted at business community and highlights urgent issues in the world and Russian business.

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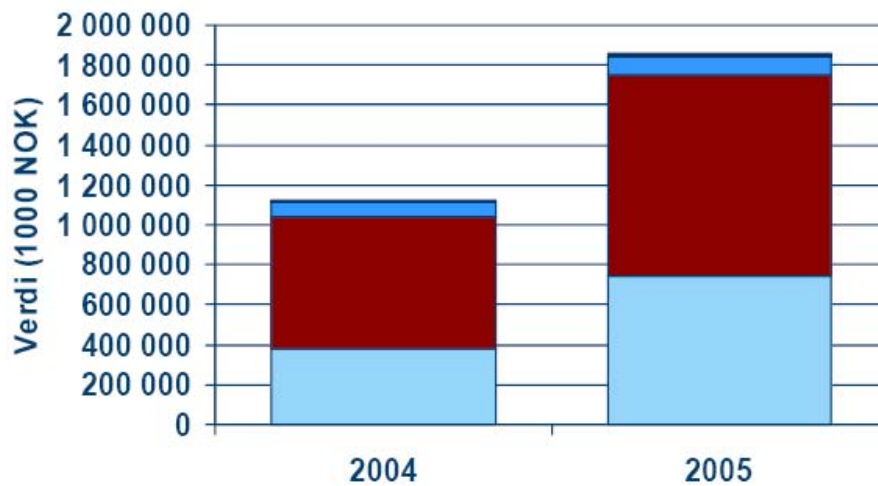
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Appendices

Appendix 1. Norwegian seafood export to Russia in January-August, 2004 and 2005.

Norsk eksport av sjømat til Russland Januar-August



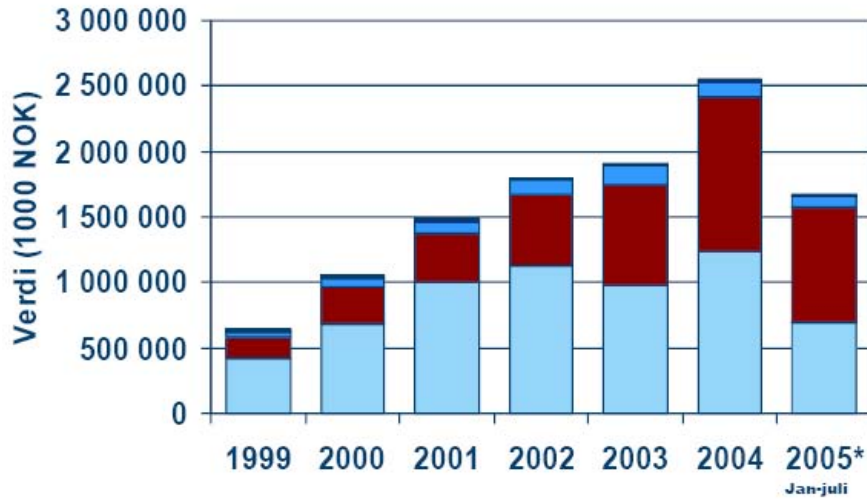
■ Pelagisk ■ Laks/ørret ■ Hvitfisk/Konv. ■ Reker/skalldyr ■ Annen

© Eksportutvalget for fisk



Appendix 2. Norwegian seafood export to Russia in 1999-2005.

Norsk eksport av sjømat til Russland 1999-2005



■ Pelagisk ■ Laks/ørret ■ Hvitfisk/Konv. ■ Reker/skalldyr ■ Annen

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Appendix 3. Questionnaire for interviews



Survey

For supplementation to Master thesis “Motives for and barriers against entering the Russian seafood market by Norwegian companies: choice of entry mode” by senior student in Master program in International Fisheries Management Arina Sidoryuk.

1. *The focus of the study:* consideration of main aspects of internationalization process of the firm, such as motivation for entering a foreign market, perceived barriers associated with host country and decision on the choice of entry mode.
2. *The aim of the current survey:*
 - to analyze behavior of the individual Norwegian firms, which either have entered or considering entry to the Russian seafood market
 - to obtain the deeper understanding of entry modes, used by them for doing business Russia.
3. *Number of questions:* 15, divided into 4 parts (see page 2)

❖ **Demographic characteristics of the company.**

- Type of activity
- Number of employees
- Number and types of products that the company (name) offers in the Russian market

❖ **Motivation for entering the Russian market**

- What were the main motives for entering the Russian market?
- Which Russian market opportunities were perceived by management of the company (name) on the stage of taking decision to internationalize?
- Have the motives for internationalization changed since the company (name) entered the Russian market?

❖ **Perception of the barriers against entering the Russian market**

- Which barriers against doing business in Russia were perceived by the company (name) on the stage of making decision about entering the Russian market?
- What has to be done to reduce these barriers?

❖ **Choice of entry mode (the organizational form, which was used by the company to enter Russia)**

- Has the company (name) had experience of working in some other foreign markets before entering Russia?
- Which entry mode did the company (name) choose for entering the Russian market?
- Why was this mode chosen? In your opinion, what are the main advantages and disadvantages of using the chosen mode for doing business in Russia?
- Why was not the other entry mode chosen?
- Has the entry mode been changed since the company (name) entered the Russian market? If yes, to which one and what were the main reasons for this change?

Thank you very much for devoting your time to answering the questions of this survey!

Appendix 4. Questionnaire for interviews with key informants

Name of the interviewee:

Organization:

Position in the organization:

Date of interview:

❖ Motivation for internationalization to the Russian market

- What are the main motives for Norwegian seafood companies to enter the Russian market by means of offering their products there?
 - ✓ Big market
 - ✓ Growing market
 - ✓ Stable economic growth
 - ✓ Market opportunities (please, specify which ones)
 - ✓ Other motives?

❖ Perception of the barriers against entering the Russian market

- Which barriers against doing business in Russia do Norwegian companies perceive?
- What can be done to reduce these barriers?
- What do you think about business culture in Russia? Is it the source of barrier for doing business in Russia?

❖ Choice of entry mode

- Which forms of entering Russia do usually Norwegian seafood companies choose? (exporting, licensing, joint ventures, establishing foreign subsidiary)
- Which advantages and disadvantages of use of these entry strategies for doing business in Russia do you see?

Thank you very much for devoting your time to answering the questions of this survey!

Appendix 5. Organisational chart of Lerøy Seafood Group ASA



Source: www.leroy.no