

Research Proposal

Relational Risks of Entering a Business Network – Finnish firms expanding to Russia

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Introduction

A network theory has been widely applied in the research on international business. The studies in this field explore different ways of using business network contacts and utilising network resources in internationalization process. This approach implies that expanding firms benefit from the existing relations (e.g., Welch & Welch, 1996; Coviello & Munro, 1997; Sharma & Blomstermo, 2003; Oviatt & McDougall, 1994). However, such a viewpoint takes the attention away from the process of building new relations; yet, managing business contacts and handling the plurality of relationship forms in business network starts from their establishment. Indeed, in order to control and utilise a certain relation within business network for internationalization goals, a firm first has to build this relation. Moreover, since ‘no business is an island’ (Håkansson & Snehota, 2006), a firm not only creates a solitary connection but also enters an existing network that is foreign and unfamiliar to it.

Little research is done on business network entry; and the existing studies are mainly concentrated on structural dimensions of networks like orientating and positioning (e.g. Axelsson & Johanson, 1992; Johanson & Vahlne, 2003). Although their theoretical relevance cannot be underestimated, I affirm that the process of a new business network penetration, especially in the context of internationalization and foreignness, is a more complex and many-sided phenomenon. Besides the structural factors of network entry, the variety of relational dimensions is present. Additionally, the review of the academic literature on the network approach in international business mainly reveals the opportunities that network relations can lead to (Coviello & Munro, 1997; Björkman & Kock, 1995). However, not only opportunities but also risks can derive from entering new networks and building new business contacts. Taking into account this research gap, my study intends to investigate relational risks (as opposed to structural ones) a firm experiences when entering a business network that is new and foreign to it.

The empirical evidence is planned to be based on studying Finnish SMEs expanding their businesses to Russia. The setting selection is justified by the high practical relevance of the study. Russia as a growing market represents a great economic interest and potential opportunities for international companies, especially Finnish ones on the SME level; many Finnish companies expanded their businesses to Russia during the past decade, and many enterprises plan to do it in the near future (Orlov, 1999: 1-2). According to Luostarinen (1994: 43) and Opanasenko and Yli-Olli (1995: 63-64), Finland has a strategic geo-political position as a gateway between East and West; hence, there is a big potential for the growth of trade, investments, technology transfer and other cooperation between Russian and Finnish businesses.

1 Theoretical antecedents and received studies

1.1 A Network Approach to Internationalization

The scholar field of international business is to a great extent influenced by the network approach; studies in this field have turned their focus towards social and industrial networks (Jones & Coviello, 2005). What is different in this approach to the internationalization?

According to Blankenburg Holm (1995), the traditional view on internationalization is more concerned with the decision making on top management level rather than with the implementation of this decision. Existing theories mainly focus on entry mode selection and entry decision making, while a network approach focuses on the character and number of the business relations and indicates the importance of their coordination and development and building cooperative relations with network actors (Axelsson & Johanson, 1992; Blankenburg Holm, Eriksson & Johanson, 1996; Hadley & Wilson, 2003). From a network perspective (Blankenburg Holm, 1995), business expansion abroad is viewed a process that is influenced by all managerial levels and involves numerous actors from both inside and outside a firm network. Therefore, it is seen as a cumulative, interactive and unpredictable process of constant reconsidering of actions and adaptation among network actors under ever-changing conditions. In addition, the firm's resources are rather a matter of inter-firm interactions than intra-firm characteristic.

1.2 Network risks of internationalization process

Various pieces of research on network relations in internationalization uncover their positive effects on expansion process. The establishment and extensive use of formal and informal network relations help internationalizing firms to see new market opportunities and take advantages of synergy effect, therefore, accelerating their internationalization efforts (Coviello & Munro, 1995; Chetty & Blankenburg Holm, 2000). Hence, the systems of external relationships can direct and support firm's international development; often these relations influence the choice of the country and entry mode (Coviello & Munro, 1997).

Although network relations provide companies with numerous resources and opportunities, they may also inhibit internationalization efforts and result in high risks and negative effects on firm's development (Coviello & Munro, 1997). Even beneficial connections can limit company's further expansion in a sense that it fails to recognize other international opportunities (Welch & Welch, 1996). Håkansson & Ford (2002) state that network actors are not free in their actions because the network sets limitations on bringing new actors into it and trying to control others. The issues like power and control in a foreign network may set constraints on networking activities; for instance, a company may experience a total dependency from dominant actor of a network (Coviello & Munro 1995). Seppo (2007) shows the restrictions towards internationalization can come both from home-based networks (for instance, through rules and policies from a parent company) and foreign network (e.g., competitors).

The demerit of network involvement is also described by Uzzi (1997) who calls it 'the paradox of embeddedness'. The same mechanism that gives the access to various benefits, in fact, reduces firm's ability to adaptation, decreases diversity and opportunity recognition. Deep involvement to network relations makes companies vulnerable to unexpected changes in markets; in case of sudden exit of a core member, other actors may lose an important resource flow if they do not have contacts outside the network. Overembeddedness also may lead to the problem of free-riding that rests on the expectations of reciprocal exchange obligations of friendship.

The disadvantages of network relations described above and especially the phenomenon of overembeddedness imply the prior involvement into a business network. This, in turn, means that an entry to the network (or its creation) has occurred. In other words, to get overembedded a firm is supposed to penetrate a network and get some embeddedness first. Obviously, this does

not reveal what drawbacks and risks a firm can experience when getting into a new unfamiliar system of business relations.

1.3 A network entry process

The discussion on penetrating a new business network starts with the debates about what is actually considered as an entry event, or, at least, where the process of entry starts and ends. Blankenburg Holm (1995) contends that neither starting point of a network entry nor its finish is feasible to detect. This happens because it is impossible to know which network condition causes this entry, in most instances it has unexpected directions, and “the state of entry is neither final nor stable, since the interactions in the network imply a continuous change of the firm’s context and consequently of its business activities” (p.382). The problem with this statement is that, in fact, a business network entry could mean anything starting from an initial search for potential business partners to dissolution of long-lasting business relationships. Obviously, there is a need for a more precise description of a business network entry.

The use of network perspective on market entry is developed within so called ‘markets as networks’ approach. For instance, Johanson & Mattsson (1987, 1988) contend that building new relationships with new counterparts is a crucial condition for an establishment a position in a new market; this can be also done by discontinuing existing relations. The authors also propose that this process has three phases: first, at international extension phase, a firm forms relations in new countries; second, at penetration phase, it increases commitment; and at the third phase of international integration, it integrates its position into a business network in a foreign country.

Taking into account the uncertainties of a network penetration, Axelsson & Johanson (1992) suggest the three critical issues that have to be considered. First, the process of orientating relates to the understanding various relations among actors in a network and the place of a new entrant in these relations; it is worth noting, that a real orientating can happen only after entering a network meaning that entry event as such occurs under the conditions of even higher uncertainty and may take long time. Similarly, Johanson & Vahlne (2003) state that networks are impossible to learn from outside; the only way to understand them is to start interactions with actors, otherwise, the network structure can be only assumed. Second, positioning in a network implies the development of firm’s identity with regard to strength and content of relationships with other actors; the position of a firm in domestic market and in third countries in many instances influences positioning process when entering a new market. Third, timing becomes a critical issue when a firm enters a new foreign network; precisely, no timing strategy or planning can be applied to this process since new relations and interdependences turn up at irregular intervals; therefore, it becomes more important to react fast and catch an opportunity.

The concept of viewing markets as networks is a strong theoretical foundation; however, I believe there is a room for advancing it because it does not provide an all-inclusive picture of the network penetration dimensions. It is pretty obvious that this three-factor model suggested by Axelsson & Johanson (1992) concentrates on the structural component of a business network like orientating and positioning. The more “soft” relational component is not taken into consideration. This makes the model relatively static and “osseous”. Though the timing issue is presented, it just serves to indicate the irregular fashion of business relationships occurrence and development. In addition, this model shows the dimensions of network entry only after the moment of entry (because, according to the authors, orientating can happen only after an entry event). Basically, it stays unclear if there are any actions, processes or preparations that take place before it. What potential network entry risks could be seen before the entry and how this risk perception changes when a firm actually gets into the business network? Also, it remains unspecified what drives an entry into a new network and what opportunities trigger this process.

Interestingly, a business network can also be a strong entry barrier for international expansion. Johansson & Elg (2002) suggest a very useful and highly interesting concept that complements and develops Porter’s framework of five entry barriers. The authors indicate that a firm can build new relationships in a foreign market and strengthen the existing connections in

domestic one in order to create entry barriers to its home market and protect a business from coming-from-outside competitors. Therefore, through different relationship strategies, both horizontal and vertical, a firm can reduce the attractiveness of its home market for outsiders and complicate their positioning in a network for which they are new. For example, on a domestic side, a company can make coalitions and collaborate with former competitors or adopt and strengthen partnership with vertical actors in order to defend its home market and build entry barriers. From a network perspective, local firms operating on a domestic side have a unique advantage because they have already established position in the networks and they can cooperate with the key actors. In turn, the firms entering this market (which is foreign and new to them) are in a disadvantageous position because they have to build their networks from scratch and find their position there.

1.4 Finnish firms in Russian business network context

Dramatic institutional changes in Russian business networks during the last years of perestroika and further collapse of Soviet Union have made them less structured, less homogeneous, less hierarchical and more closely linked to Western networks (Salmi, 1995). Under the new formal and informal 'rules of a game', the roles of business network actors are not clear, some actors disappeared and some new ones came to the business arena. In this kind of loosely structured networks that are defined as turbulent or emerging ones, short-term relations and single transactions are common among actors and play a significant role in interaction (Bridgewater, 1999; Salmi, 2002: 1376). An entry to these networks can be easy at the first moment; however, the further identification and coordination of relations with focal partners can turn to be a lengthy and difficult process (Blunkenburg Holm, 1995: 383).

Using the case of Finnish company, Salmi (1996) suggests how Western companies can adapt both externally and internally to these uncertain network conditions. The main constrain for newcomers relates to the potential problems in social interaction as a main component of exchange relations and business contact establishment. These conclusions stay in line with the results from the study by Hellman (1996: 204-205) who shows that Finnish companies tend to internationalize in groups following the network of competitors; this indicates that actions of the competitive network has a significant impact on their internationalization decision.

Strong presence of interpersonal informal relations in business networks is a particular feature of instable economies under transition, which Russia is (Rogers, 2006; Batjargal, 2006). This relates to the undeveloped legal system in the country, collapse of governmental institutions and moral heritage of social chaos after the breakdown of soviet regime (Batjargal, 2006; Batjargal, 2007; Hendley, Murrell & Ryterman 2000). "When people do not trust the state, they establish the rules themselves" (Sidorov, Alexeyeva & Shklyarik, 2000: 922). This may become a big challenge and obstacle for Western firms that are used to rely on legal infrastructure as a main point of reference. (Orlov 1999: 374) Under the constantly changing and instable business conditions, the functions of formal state authorities and relations with them are substituted by informal practices (Jansson, Johansson & Ramström, 2007: 959). Therefore, in post-socialist context, personal network relations still matter and have even increased their importance if compared with those under communism (Sik & Wellman 1999).

In this atmosphere the costs of business partnering, relationship replacement and their tracking become very high; network creation, expansion and enrichment may be difficult and take long time. Since network restructuring is risky, Russian businesses are reluctant to change their connections and give up the structural properties, diversity and size of a network in favor of its composition quality. (Batjargal, 2007) Therefore, they are relationally inert because established contacts prevent them from further networking and creating new contacts; this phenomenon is called 'ceiling effect' (Batjargal, 2006).

The involvement into a business network and the belonging to some circles implies the mechanism of identification that tags one as a member of a network and another one as an alien. In Russian business network context, this affiliation with certain relations is defined in terms of

“nash” (ours) and “ne nash” (not ours) (Schrader, 2004: 405) or ‘insider’ and ‘outsider’ (Aidis, Estrin & Mickiewicz, 2008). Therefore, a person who is new to a network is treated as “ne nash” or outsider, and relations with this person are regarded as not trustful. Dealing with such a newcomer is regarded as a very risky business because it is seen as a faceless transaction. Hence, the profound entry to a business network supposes turning the status of “ne nash” to “nash” one, which means time-consuming establishment of trustful relationships, solidarity and reciprocity of obligations.

There are several features that are special for Russian business network context. One of this distinct characteristic is ‘blat’ that can be described as an alternative social mechanism, an informal barter system within personal networks where favors, gifts, and money are exchanged and through which status is attributed (for the first time introduced in international scientific literature by Berliner 1952: 356; Batjargal, 2006; Rehn & Taalas, 2004; Ledeneva, 1999). The phenomenon called “otkat” is also a part of business relations and business culture in Russia. Though there is no direct translation into English, the meaning of this word is close to “kick back” or “tampering with a client”; it is an indirect bribe in a form of commission that a manager receives from a supplier for signing a contract with the latter on. As a whole, the business environment in Russia still can be characterized as very unsteady and quite ‘unworkable’ for new actors (Aidis et al. 2008: 658).

Philosophical Commitments

Personally, I adhere to the constructivist assumptions, which implies that “the meanings of social phenomena and their meanings are constantly set in minds of social actors” (Bryman 2004: 438). Therefore, I am consistent with the respective ontological, epistemological, and methodological positions. Relativism is an ontological premise that I employed in my study. This position implies that many local and specifically constructed realities exist; they are multiple because they are embedded into particular context or person. This paradigm stipulates subjectivist or interpretivist epistemological position. According to this position, comprehension during the study process is co-created by respondent and researcher and the latter one grasps the subjective meaning of social action. Hermeneutical or qualitative methodology is coherent with regard to my paradigm; this means that my method of interpretation of human action is determined by the perspective of the actor. (Bryman, 2004; Denzin & Lincoln, 2000)

Methodology

The topic of my research intended to be studied with the means of multiple-case study approach. This methodological choice can be justified by several reasons. Gartner and Birley (2002) indicate that qualitative studies provide more deep understanding of various situations where entrepreneurship occurs; “the ‘numbers’ do not seem to add up to what would seem to be a coherent story of what we believe to be the nature of entrepreneurship” (p. 388). The merits of case study approach are discussed by Donmoyer (2000). He proposes that access to unique cases provides researchers with rare opportunities to experience something that other research consumers cannot do; this unique knowledge becomes very valuable because the goal of any study is not to develop right interpretation but rather to broaden the scope of possible interpretations and reach the diversity of angles and opinions. Case study allows readers to see a phenomenon ‘through researcher’s eyes’ and learn the things that they otherwise could not notice. Also, case studies provide research consumers with vicarious experiences of other researchers; these experiences less likely cause defensiveness and resistance to learning.

Case study strategy is very beneficial for my research question for several reasons. First, case study approach gives a certain meaning and purpose to the object or event because it provides the idea about its local context and situational constraints (Sayer, 1984: 117; Stake, 1995: 16). Therefore, the results arising from case studies are based on real-world patterns (Dul & Hak 2007: 5; Patton 1990: 45). This context embeddedness cannot be measured or identified

by quantitative methods; hence, quantitative data may be inapplicable to individual cases because uniqueness of the case is rather treated as an “error” than as highly informative characteristic (Guba & Lincoln, 1998; Stake, 1995: 39). Attention to details, nuances and interdependences provides a holistic perspective on studied phenomenon and reveals a comprehensive picture of its nature in totality (Patton, 1990: 51; Gummesson, 2000: 86; Cassell & Symon, 1994).

My research intends to have a special focus on Russian contextual environment from the point of view of Finnish SMEs; therefore, this purpose justifies the choice of case study method. In addition, the study concentrates on business network entry, relational components of network linkages and structural peculiarities. According to Scott (1991: 3) and Hallinen and Törnroos (2005: 1288) qualitative approach and case study strategy are the most suitable for studying these topics.

The second advantage of using case study strategy in my research relates to very dynamic and multi-variable phenomena that I intend to study. Qualitative methods in general are more appropriate for studying organizational processes (Cassell & Symon, 1994) because they better capture mechanisms of change of highly dynamic and complex units of analysis in details with special attention to their developmental and transformation of features (Patton, 1990: 13, 53; Stake, 1995: 37). Even a relatively small number of cases can be appropriate for an in-depth understanding of these changes and their effects (Gummesson, 2000: 3; Marshall & Rossman 1999: 15; King et al. 1994: 4). In this sense, the case study strategy is an adequate choice for my study because I plan to focus on very dynamic and multi-sided phenomena – business network and the process of its penetration, which implies that actors are not autonomous units but rather involved into composite interdependent relations (Wasserman & Faust, 1994; Scott, 1991).

Third, qualitative methods in general and case studies in particular are used in research without any hypothesis when results are unexpected and researchers do not aim to predict and control the studied phenomena (Marshall & Rossman, 1999: 15; Guba & Lincoln, 1998). Therefore, qualitative studies have naturalistic orientation because they view phenomena as they occur in real-world conditions without any manipulations influencing research outcomes (Dul & Hak ,2007: 5; Patton, 1990: 41; Cassell & Symon, 1994; Stake, 1995: 44). This is particularly true for explorative research that aim at deeper discovery of scantily investigated issues (Marshall & Rossman, 1999: 57; Patton, 1990: 44). Concerning my study, the little research about business network entry and relational risks associated with this process proves the choice of qualitative methods for their investigation.

Research background

My doctoral dissertation is planned to be composed as a collection of articles that share a common subject of a network approach in entrepreneurship and international business with a special attention to informal component of network relations. I have already completed the two papers with my supervisor as a co-author. One paper is published in a format of a book chapter (Kock & Galkina, 2008. *Entrepreneurial Network Creation: Using Formal and Informal Relations of Entrepreneurial Team Members in Russia and Finland*. In: Larimo & Huuhka (eds.) *Perspectives on Marketing*. Vaasan Yliopiston Julkaisuja, Vaasa). The other papers – “*An influence of the National Entrepreneurial Environment on entrepreneur’s Networking*” and “*An Entrepreneurial Infrastructure and Relationship Establishment: Networking Patterns of Russian and Finnish Founding Teams*” – have been accepted for 2009 Babson College Entrepreneurship Research Conference and the 25th EGOS Colloquium respectively.

The current study “*Relational Risks and Opportunities of Entering a Business Network – Finnish SMEs expanding to Russia*” is jointly organized between Hanken School of Economics and Graduate School of Management within St-Petersburg State University, Russia. The collaboration is mainly built around data collection process in order to ease interviewing process in the two countries. It is worth noting, that this joint study does not have the status of research project neither at Hanken nor in Graduate School of Management; therefore, the members of the

research group do not receive any funding for this study and work together on an informal voluntary basis. My role in this research group is to develop relevant theoretical basis for the research, collect data and (in future) write scientific publications collectively with the other group members.

The members of the research group:

Hanken School of Economics, Finland:

- Sören Kock, Vice rector, Professor of Management and Entrepreneurship
- MSc. (Econ.), Doctoral Candidate, Tamara Galkina

Graduate School of Management, St-Petersburg, Russia:

- Vera N. Minina, DSc. (Soc.), Professor
- Galina V. Shirokova, DSc. (Econ.), Docent

Research results, their dissemination and utilization

I naturally intend to disseminate the results of the proposed project through all the traditional academic channels, meaning presentations at international conferences and workshops and publications in relevant international peer-reviewed journals. In addition, the results of the study will be used as a part of my doctoral dissertation. I also hope that the joint work between Hanken School of Economics and Graduate School of Management within St-Petersburg State University will open new opportunities for future collaborative work between the two schools. This potential for future stays in line with the current Hanken's internationalization policy and its special interest in partnership with Russian universities.

Personal background

I defended my Bachelor thesis on "*Organizational Development in Instable Social Environment: Managerial Risks*" in 2004 at St-Petersburg State University, Russia and received the diploma with exceptions of granted Bachelor of Sociology degree. The same year I got grant from SIAR foundation (Scandinavian Institute for Administrative Research, Stockholm, Sweden) and started my studies in Finland; in total this foundation supported four years of my studies (2004 – 2008). I had two years of non-degree studies that I respectively spent at Lappeenranta University of Technology (International Business and Technology Management programme) and Tampere University of Technology (Industrial Management).

The next two years I studied on Master's level at Hanken School of Economics, Strategic Entrepreneurship programme. I submitted my thesis on "*Entrepreneurial Network Creation: Using Formal and Informal Relations of Founding Team Members in Russia and Finland*" and received Masters Degree in Economics and Business Administration in March 2008.

I was accepted as a doctoral student at Hanken School of Economics in August 2008 and currently I work on a study "*Relational Risks of Entering a Business Network – Finnish SMEs expanding to Russia*".

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