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Business and Economics Programme

The effects of the institutional context on a
foreign company's entry strategy when
entering an emerging market
- A case study: Väderstad-Verken AB

Yevgeniya Ushakova

Supervisor:
Ramsin Yakob



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Linköping, 23rd May 2015

Yevgeniya Ushakova

ABSTRACT

- Title:** The effects of the institutional context on a foreign company's entry strategy when entering an emerging market
A case study: Väderstad-Verken AB
- Author:** Yevgeniya Ushakova
- Supervisor:** Ramsin Yakob
- Background:** More foreign companies expand into emerging markets and such markets differ from developed ones. Emerging markets present opportunities and challenges for foreign companies. Challenges include many environmental factors, cultural differences, economic uncertainties and weak institutions. Emerging markets are often characterized by underdeveloped formal institutions which result in the so called institutional voids. Informal institutions act as formal institutions and fill in these institutional voids. Foreign companies need to pay much attention to emerging economies institutions when selecting entry mode since the institutions affect their strategy and profitability.
- Aim:** The purpose of my thesis is to investigate and analyze how a foreign company is affected by a host country's institutional context when entering an emerging market. The thesis focuses on the emerging market of Russia and a case company.
- Methodology:** This thesis has a deductive approach and a qualitative research strategy. The author conducted a semi-structured interview with the Chairman of the Board of Directors of Väderstad Verken AB, and, therefore, the thesis can be seen as a case study.
- Conclusions:** Institutions affect the steps taken in accordance with the Uppsala model. It is important to learn more about the institutions of a host country in choosing an entry mode. The weakness in property rights, risk of corruption, political and economic factors combined with networking were the dominant factors in choosing an entry mode. Väderstad suffers from institutional shocks in the Russian market and they affect the willingness to invest further.
- Keywords:** Emerging markets, formal institutions, informal institutions, institutional voids, entry mode.

SAMMANFATTNING

- Titel:** The effects of the institutional context on a foreign company's entry strategy when entering an emerging market
A case study: Väderstad-Verken AB
- Författare:** Yevgeniya Ushakova
- Handledare:** Ramsin Yakob
- Bakgrund:** Mer företag expanderar till tillväxtmarknader och sådana marknader är annorlunda än utvecklade marknader. Tillväxtmarknader presenterar både möjligheter och utmaningar för företagen. Utmaningarna inkluderar omgivningsfaktorer, kulturella skillnader, ekonomisk osäkerhet och svaga institutioner. Tillväxtmarknader karakteriseras ofta av underutvecklade formella institutioner som kan resultera i institutionella tomrum. Informella institutioner verkar som formella för att fylla tomrummet. Utländska företag måste ge uppmärksamhet till institutionerna i tillväxtmarknader när de väljer etableringsform eftersom institutionerna påverkar både strategi och lönsamhet.
- Syfte:** Syftet med uppsatsen är att undersöka och analysera hur ett utländskt företag påverkas av ett värdlands institutionella sammanhang när det etablerar sig på en tillväxtmarknad. Uppsatsen fokuserar på tillväxtmarknaden Ryssland och ett fallföretag.
- Metod:** Uppsatsen har en deduktiv ansats och en kvalitativ forskningsstrategi. Författaren genomförde en semistrukturerad intervju med styrelseordföranden och delägaren i Väderstad-Verken AB och därför ses uppsatsen som en fallstudie.
- Slutsats:** Institutioner påverkade stegen i enlighet med Uppsalamodellen. Det är viktigt att lära sig mer om institutionerna för värdlandet när företaget väljer etableringsstrategi. Svag äganderätt, risk för korruption, politiska och ekonomiska faktorer kombinerat med närverksbyggande var dominanta faktorer i valet av etableringsform. Väderstad påverkas av institutionella chocker i Ryssland och det påverkar viljan att investera mer.
- Nyckelord:** tillväxtmarknader, formella institutioner, informella institutioner, institutionella tomrum, etableringsform

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1 Introduction

1.1 Background

Due to increased globalization, reduction of trade barriers between the countries, better transportation and communication, and faster widespread of new technology across borders, trading with other countries has become easier. During the past half century the companies moved to the new markets. This process is called internationalization, which can be a source of huge opportunity and also a potential destroyer (Grant, 2013). Different countries have different types of markets, developed and emerging markets are the most frequently mentioned ones by researchers. Many firms prefer to expand to developed markets while others look for opportunities in emerging ones. The World Bank defines an emerging market as a market with a GDP of less than 8000 US dollars (in Herstein and Jaffe, 2007). The concept “emerging economies” includes a variety of countries and encompasses many definitions. The majority of definitions have two elements: the emerging economies have institutional contexts that are turning into more market-oriented from less market-supporting and income or GDP is increasing facilitating economic growth (Xu and Meyer, 2013).

Emerging economies are acquiring an increasingly salient position in the world economy (Wright, Filatotchev, Hoskisson, and Peng, 2005). Their role is assumed to be even more considerable in the future (OECD, 2011a). The emerging economies are a very heterogeneous group which differs in terms of economic size, population, levels of income per capita and growth performance. Argentina, Brazil, China, India, Indonesia, the Russian Federation and South Africa represent the group of the world’s largest emerging economies. They constitute about one fifth of global GDP and are close to half of the world’s population. Even though the emerging economies are different, they have something in common. All of them experienced a period of growth before the Great Recession with even higher growth rates than other OECD countries in average. The emerging economies started to integrate into the world economy due to domestic policy reforms. Additionally, these economies have high potential for income growth of their populations (Ibid.).

More and more companies choose to expand to emerging markets, although such markets differ much from developed ones (Khanna and Palepu, 2000). Emerging markets are an important target for many international companies since they present many opportunities for them. Emerging markets are characterized by economic growth, economic development and market governance (Czinkota and Ronkainen, 1997). International firms consider the level of economic growth as one of the most important

factors for expansion (Alon and McKee, 1999). Economic indicators such as GDP growth and foreign direct investments propose that emerging markets like China and India represent high-growth potential (Elfrink, 2014). Among other reasons for entering an emerging market are a large number of potential customers with growing disposable incomes, as well as the relatively low number of competitors on the market which represent potential for international firms' development and profits (Prahalad and Hart, 2002).

However, emerging markets present not only opportunities, but also certain challenges for companies expanding there (Prahalad and Hart, 2002). According to Khanna, Palepu and Sinha (2005), uncertainty and complexity are the main characteristics of emerging markets. Also, these markets are characterized by turbulence (Johanson and Johanson, 2006). For instance, the macroeconomic turbulence that the world is experiencing will probably make the expansion on these markets more complicated (Bishop, 2008). Political forces are one of the major influences among macroeconomic forces on emerging markets. The state (often an undemocratic one) intervenes more and more in business activities in developing countries globally (Bishop, 2008). The worst examples of such state intervention may be of oligarchic and state-led capitalism, both of these types are dominant in many emerging markets (Ibid.). Economic factors, for instance, interest and inflation rate, present challenges for foreign companies in the emerging markets as well. Such political and economic turbulences may, for instance, affect the risk premium and depreciation expectancy that will influence the interest rate of the developing market (Fregert and Jonung, 2008). Moreover, the fluctuating oil and commodities prices create inflationary pressures in many countries (Bishop, 2008). The political and economic risks are important for international investors' evaluation of the expansion to emerging markets (Czinkota and Ronkainen, 1997). Also, such impediments as cultural and linguistic barriers make market entering into emerging markets more complicated (Kogut and Singh, 1988). Furthermore, there are many environmental factors, such as weak institutions, cultural differences, high economic and demand uncertainty, which prevent companies from entering emerging markets and exploiting opportunities there (Khanna et al., 2005). Hoskisson et al. (in Wright et al., 2005) state that challenges are likely to appear in emerging economies because of weak institutional infrastructures as a result of uncertainties originating from economic and political instabilities and a lack of market-based management skills. Emerging markets differ, however, all of them lack providing the institutions required to support basic business operations in different degrees (Khanna and Palepu, 1997).

In spite of all the challenges that emerging markets represent, foreign companies continue to start businesses there and Swedish companies is not an exception. Eastern European markets, the Russian one in particular, is a lucrative target for some of them

for a number of reasons. According to OECD economic report on Russian Federation (2011), labor markets are relatively flexible and the population of the country is well educated which may provide opportunities for growth. Although there are many advantages in expanding to the Russian market, there are some challenges there. For instance, the business climate is an area where Russia is behind many OECD countries (OECD, 2011). State is much involved in the economy, there are high levels of corruption in the country, weak rules of law, and the foreign trade and investment rules are relatively restrictive (Ibid.). These deficiencies prove the importance of the institutional context in the country and their effect should be taken into consideration by foreign companies' strategies when entering the Russian market.

1.2 Problem discussion

The pursuit of entering and succeeding at emerging markets constitutes an important direction in the international business (IB) and strategic management research fields. Peng (2001: 809) states that "*emerging economies are likely to become the new battleground for IB competitions and that researchers need to pay careful attention to the institutional context in which IB activities take place*". Uncertainty and relatively unstable institutional factors make firms consider how to strategically develop further (Ahuja and Lampert, 2001). The challenge is the adoption of developed markets' strategies since emerging markets are very heterogeneous (Wright et al., 2005). Environmental differences between developed and emerging markets suggest that companies will require adopting certain strategies depending on the type of a market (Bingham and Eisenhardt, 2008). When planning entering new markets, companies need to select various strategies depending on a market type. According to Deresky (2000), firms' managers have to analyze in what way their companies can successfully enter a new market while risks and environmental factors should be carefully examined since they are important for firms' survival and performance.

For the reason that many foreign companies expand to emerging markets, they should pay much attention to emerging economies' institutions since they differ much from those of developed countries and can affect strategy and profitability of these companies (Peng, Wang and Jiang, 2008). According to Wright et al. (2005), institutional theory concentrates on the political, social and economic systems' role in defining companies' behavior on a market. Institutional theory implies that companies are influenced by the institutional environment when they expand to a new market since the institutional environment of a host country represents the "rules of the game" according to which companies should play (Peng et al., 2008).

Economies in transition are often defined by underdeveloped formal institutions which often result in an unstable environment and creation of a void usually filled by informal ones (Puffer, McCarthy and Boisot, 2010). Entrepreneurs in such economies experience more uncertainty and risk than those compared with developed countries (Ibid.). They occur due to high instability of main political, economic, and institutional variables. Thus, these factors make firms' prediction of strategic decisions more complicated. Khanna, et al. (2005) suggest that the so-called "institutional voids" – the absence of intermediaries to successfully connect buyers and sellers – impedes the implementation of strategies. The formal institutional void has its origins in weak attempts to develop more formal institutions. The formal institutions weakness of legislation, or an institutional void, is covered by informal institutions (Ibid.). If the formal institutions are weak, networking can help one to overcome the deficiencies in formal institutions (Ahlstrom and Bruton, 2006). Radygin and Antov (2008) suggest that well-developed property rights, as a formal institution, influence the economic development positively. Well-functioning property rights diminish the need of building trust and relying on networking between organizations (Puffer et al., 2010).

Emerging markets differ much from the developed ones in the environmental context where formal institutions function well and are well-developed and support business activities. Such supportive conditions for firms constitute a benevolent environment for them to grow and develop, in contrast to emerging economies. The void of formal institutions may contribute to the creation of an environment which is favorable to local firms and unfavorable to foreign firms, and encourage opportunistic behavior of firms since it is difficult to rely on inefficient government bodies to control the environment, and in this way reduce the benefits foreign companies may bring.

These turbulent conditions represent the obstacles foreign firms experience entering emerging economies markets due to the weaknesses of these countries' formal institutions (Hoskisson, Eden, Lau and Wright, 2000; Peng, 2001). The institutional environment is significant for firms' growth and prosperity. While the formal institutions support and encourage companies' business activities in developed economies, they do not function that well in emerging economies (Meyer, 2001).

The Russian government has been struggling with modifying the central planning economic system into market economy like one for many years. Some improvements have been done, for instance, in the judicial system, although, much has to be done, for instance, concerning regulatory institutions. No matter what, formal institutions grow slowly from informal ones in Russia as in other transition economies. Informal institutions influence a lot firms' activities on the market. For instance, among firms networks are common, partially because of inefficiency on these markets and partially

due to social traditions, and networking affects firms' interaction (Xu and Meyer, 2013). To conclude, in Russia the more formal regulative environment started to appear, however, companies still rely more upon informal institutions based on customs and traditions since this environment still needs to develop.

The study focuses on entry strategy and the environmental context. Entry strategy of a company depends on the context of the country, among other reasons. This study is important since it touches the specific context of emerging economies which differs much from the developed ones. My analysis concentrates on how these institutions have affected the entry strategy of a foreign company in the emerging market, Russia in this case.

This study contributes with the analysis of the formal institutions with focus on the Russian market. The formal institution selected is property rights and the example of an institutional void filled in by an informal institution is networking.

It is essential for foreign firms expanding to emerging markets to take into consideration formal and informal institutions while planning and developing their strategies and operations. In the theoretical background chapter, I discuss the relation of institutional theory to entry strategy in emerging economies. In the empirical part of the paper, I describe the institutions in Russia and how these two institutional variables affect firms' strategies in this country. The study concludes with the analysis of a case company in the emerging market of Russia.

1.3 Purpose and research question

The purpose of my thesis is to investigate and analyze how a foreign company is affected by a host country's institutional context when entering an emerging market.

In connection with the purpose of the thesis, the research question is:

- In what way does the institutional context of an emerging market affect the entering firms' strategies?

1.4 Limitations

To address the question raised in this thesis, I am going to focus on the emerging market of Russia, and a case company called Väderstad-Verken AB (also referred to as "Väderstad"), and on the institutional theory perspective on foreign market entry strategy. The formal institutions discussed in this paper are limited to property rights and informal institutions to networking. It is worth mentioning that even if this thesis concentrates on the institutional context, institutions are not the only factor that influences the choice of foreign market entry strategy. It can be necessary to analyze

how institutional factors influence entry strategy of foreign firms in addition to other factors' influences to get a better understanding of challenges of entering an emerging market by foreign companies. It should be noted that the findings cannot be considered valid for all foreign firms in emerging markets since the markets differ.

2 Methodology

This chapter presents the methodology employed to address the research question of this research. First, scientific approach and methodological approach are presented. Then they are followed by research strategy. After this study design and data collection method are explained. The chapter finishes with the evaluation of quality of the study.

2.1 Scientific approach

In terms of scientific approach, there are two most common epistemological perspectives – positivism and hermeneutics which represent two different approaches to form knowledge (Wallén, 1996).

“The purpose of theory is to generate hypotheses that can be tested and that will be thereby allow explanations of laws to be assessed” (Bryman and Bell, 2007:16). Therefore, positivism claims that true and reliable knowledge is grounded on logic, objectivity, measurements and practical experience. The positivistic approach is closely connected to the quantitative research and is opposed to the qualitative research (Kvale and Brinkmann, 2010). Also, the positivistic scientific approach in research should be conducted in such an objective way, so that a researcher’s values or interests should not affect the research (Ibid.). Another feature of this approach is a construction of replicability of the research in the future.

The second widely used approach to science is hermeneutic. *“Hermeneutics is an approach to the analysis of texts that stresses how prior understandings and prejudices shape the interpretive process”* (Denzin and Lincoln, 1994:15). In contrast to positivism, where a researcher is in a search of the absolute knowledge of a phenomenon, hermeneutic reasoning is more relativistic (Thuren, 2007). Also, according to the hermeneutic theory of knowledge, there is no absolute truth and knowledge (as positivism asserts) (Ibid.). Another difference between the two approaches is that hermeneutics looks for understanding for human behavior, for instance, while positivism concentrates more on the explanation of the human behavior (Bryman and Bell, 2011). In a hermeneutic approach, the knowledge is produced by understanding (Björklund and Paulsson, 2003). According to Bryman and Bell (2011), hermeneutics is related to the interpretation used for understanding of the meanings in the texts, documents and symbols. Thus, the hermeneutic approach focuses more on interpreting and understanding reality. Moreover, it is not possible to detach a researcher from the studied object since the researcher is a part of a research. Additionally, a hermeneutical researcher is influenced by his or hers values, previous experiences, contexts and previous knowledge while conducting a research about a certain object.

In this study, I have chosen to apply the hermeneutic scientific approach to analyze and interpret qualitative data in order to conduct the study analysis for a number of reasons. First of all, hermeneutics focuses on analyzing and understanding the meaning of qualitative data, e.g. a text or text-analogue, i.e. an organization or a culture (Myers, 2009). Second, it may provide an understanding how and why organizations act as they do (Ibid.). Since I have collected much qualitative textual data and chosen a case company to analyze how firms act as they do and how they are influenced, the hermeneutic approach is suitable here. Moreover, since the textual data is open for interpretation and interpretation is not an objective truth, it is another reason for the suitability of the hermeneutic scientific approach for this study.

2.2 Methodological approach

There are two different approaches to describe the relations between the theory and the empiricism in the research – a deductive approach and an inductive approach (Bryman, 2011). In the deductive approach a hypothesis is developed from the existing theory in a certain field of knowledge and then this hypothesis is empirically tested (Bryman and Bell, 2011). In the inductive approach, the theory is the result of the data collection, its analysis and development (Ibid.). Thus, the inductive approach starts from the empiricism that is collected to generate a new theory in a given area. The aim of this approach is to develop new theories.

Induction is based on empiricism and deduction is based on logic (Thuren, 2007). These two approaches are not completely separate from each other; it is not too seldom that one of them contains the features of the other (Bryman, 2011). Therefore, it is better not to treat them completely separately, but to treat them as different tendencies and use them depending on what direction the research progresses (Ibid.).

In my research I have used the deductive approach. I selected this approach because of the correlation between the theory and the research question. First, I studied the literature on the subject and chose the relevant articles. After I studied the literature on the topic and chose the appropriate theories, I formulated a research question. I collected the relevant data from the interview and from the articles in order to analyze them with the help of existing theories. I chose Väderstad as a case company since it illustrates a good case when it comes to internationalization, foreign market entry strategies, entry mode strategy, and host country institutions.

2.3 Research strategy

Qualitative and quantitative researches are two directions of research strategy (Bryman and Bell, 2007). Quantitative research often focuses on collection and analysis of hard data while qualitative research focuses more on interpretation of interviews and textual material (Ibid.). As mentioned above, a deductive approach is connected most often with the quantitative research with the aim to test the theories in a certain area of knowledge while an inductive approach is associated with qualitative research aimed at analyzing the collected data and generating new theories (Bryman, 2011).

According to Björklund and Paulsson (2003), qualitative research is used to generate a better understanding of a certain subject, an event or a situation. Thus, the qualitative approach is suitable when a researcher has an aim to analyze, describe and investigate certain phenomena or behavior of an individual or an organization. The qualitative approach is suitable for my study since the research is aimed to create a deeper understanding of how a foreign company is affected by institutional context when entering an emerging market through deepening into the subject and investigating the issues connected with the problem. Therefore, I have chosen to employ the qualitative method for my study. This method fits my purpose best since I have performed a research which was influenced by analysis and interpretation.

2.4 Study design: case study

The design of the study is a case study. The aim of a case study is to analyze one case (e.g. organization, event, person etc.) in detail (Bryman, 2011). Case study is often connected with qualitative research (Ibid.). The case study has been limited to one company, Väderstad-Verken AB, a local agricultural company in Östergötland, which operates on many markets. Also, I have chosen Russia as an emerging market for my study.

According to Yin (2009), a case study is preferred when the research: 1. targets to examine “how” and “why” questions, 2. does not require much control over behavioral events, and 3. concentrates on a contemporary phenomenon within a real-life context. Since this research investigates in what way the institutional context of an emerging market influence the entering firms' strategies, the first and third requirements are therefore fulfilled.

The case study differs from other research strategies in terms of the emphasis on context (Yin, 2009). Since this study analyzes the effects of the institutional context on foreign firms in emerging markets, the case study approach suits this study.

2.4.1 Selection of case company

I was looking for a local Swedish company in Östergötland which had long experience in export, both to emerging and developed markets. I wanted to get access to the top management with long experience in the decision-making process on market entry strategies and market entry mode. The management should have experienced the institutional context of the emerging markets and a genuine know how on how to work in such markets.

The choice fell to Väderstad-Verken AB and the co-owner and Chairman of the Board of Väderstad Group, Crister Stark. He has been active in the company since the early years since he is the son of the founder Rune Stark. Väderstad has been exporting since the early sixties to developed markets such as Norway and France and even at that time the closed market of the Soviet Union. When the collapse of the Soviet empire took place, Väderstad recognized the potential of growth into the former states. Additionally, it would be interesting for the company to find out if they could reuse some of their experiences from the Soviet institutions into the new markets.

Today 90 % of all production of Väderstad is exported and they are still expanding into emerging markets. While doing so, they have also encountered a lot of challenges caused by the institutional contexts of the emerging markets, as well as disturbances such as the international sanctions against Russia, the currency decline, the unrest in the eastern Ukraine and, therefore, it would be very interesting to analyze how all these factors affects the willingness to invest in such markets.

2.5 Data collection method

2.5.1 Collection of primary and secondary data

In the case study, it is possible to use various sources of data (Yin, 2009). According to Yin (2009), one of the most important sources for a case study is interviews. In this study, I have used both primary and secondary data. I have analyzed secondary sources of information, such as scientific articles, annual reports and web pages for my research. However, the interview conducted with the co-owner of Väderstad-Verken AB is the primary data for the research.

Secondary data information sources have been used by me to learn more about the previous research in this area, to get a better understanding of the research subject and to improve my knowledge in this area. Secondary data used in the paper was collected both from printed sources, such as the books and the scientific articles and from electronic sources, such as the electronic databases and the webpages. While collecting secondary data, I used not only the sources written by the western scholars, but also the

ones composed by the Russian researchers as well, both types of them are equally important for this research. While collecting the data by the western researchers, I used the university databases, the companies' webpages, the newspapers' webpages and the university websites. While collecting the data by the Russian scholars, I used the universities websites and the scientific journals databases. In his paper, the secondary data is of the same importance as the primary one.

I have focused on Russia as an emerging market. I have used the articles as a secondary source to describe the institutional context of Russia and I have used Väderstad to illustrate the influences of the institutional context, both formal and informal, on the decision-making of the foreign company's market entry strategy and market entry mode. Property rights and networking have been investigated and how the willingness to invest in such circumstances affected the market entry strategy.

2.5.2 Interview design

The empirical chapter of this paper has been based on the thorough secondary data collection and the interview. In qualitative interviews interviewees' viewpoints are of interest for a researcher (Bryman, 2011). Interviews can head to different directions depending on what interviewees find relevant and important (Ibid.). There are two main types of qualitative interviews: unstructured and semi-structured (Bryman, 2011). In semi-structured interviews, questions can be of a more general character and a participant has a freedom to develop his or her answers. Interviewer can ask follow-up questions connected to the received answers during an interview (Bryman and Bell, 2007).

Since the purpose of the thesis is to answer the question in what way the institutional context of an emerging market affect the entering firms' strategies, I chose to conduct a semi-structured interview. I did so because I would like to receive clear structured answers to some of the questions, at the same time, I would like to know what issues my interviewee found significant, as well as his opinions in a subject matter. I made a list of the questions before conducting the interview, the list is available in the appendix of this thesis. Some of the interview questions were changed depending on the previous answers. I asked follow up questions in some cases.

Prior to the interview, the purpose and the research questions of the study were presented to the interviewee. The participant was informed that the interview would be recorded and the recording would be conducted only if he approved of it. The interview questions were sent by email to the participant before the interview so that he could prepare for the interview. The information received from the interview was generalized and the conclusions were made.

The conducted interview had a qualitative character and was open to interpretation. The questions used in the interviews allowed interpreting the information from different angles since I got flexible answers. Moreover, the structure of the interviews allowed the follow-up questions in cases where it was necessary for the following clarification. During the process of conducting the interviews, the respondent interpreted my questions first, and then I interpreted his answers.

2.6 Analysis method

The analysis of the study has been conducted according to the hermeneutic circle concept. The hermeneutic circle refers to the dialectic between the understanding of the text as a whole and the interpretation of its parts, in which descriptions are guided by anticipated explanations (Gadamer 1976: 117). The hermeneutic circle implies that researchers understand a complex whole from assumptions about the meanings of its parts and understanding is achieved by recurring the parts and the whole they construct. The researcher in this thesis constructed the interview questions to the respondent company with knowledge of the background theory. The theoretical and empirical knowledge obtained during writing of this thesis was interpreted by the author and, in this way, the general picture of how institutions affect foreign companies' entry strategy was acquired. The knowledge of the institutional effects on entry strategies accumulated during the interview and writing of the thesis.

2.7 Quality of the study

There are two main criteria for evaluating quality of the study: reliability and validity. According to Bryman and Bell (2007), reliability is about the consistency of the tool for measuring the results (or, in other words, if similar results from the research are achieved if to repeat the study), while validity concerns if one measures well what it is intended to measure (or, in other words, the accuracy and truthfulness of the results of the research). However, the concepts of validity and reliability are not fully applicable in qualitative research in the same manner as in quantitative one (Shenton, 2004). Bryman and Bell (2007) also state that these two concepts are more appropriate for quantitative research. Many naturalistic scientists prefer to use different concepts while addressing reliability and validity issues in research (Shenton, 2004). For instance, Guba (1981) offers four criteria for achieving a trustworthy study while doing qualitative research which correspond to the following criteria of the positivist researcher: a) credibility (in preference to internal validity); b) transferability (in preference to external validity/generalizability); c) dependability (in preference to reliability); d) confirmability (in preference to objectivity).

According to Lincoln and Guba (1985), while establishing trustworthiness in research, ensuring credibility plays one of the most important roles. Credibility can replace the criteria of internal validity, where researchers make sure that research measures what it is supposed to measure, and it is achieved when a researcher conveys results of a study to respondents so that they confirm that the reality is reflected in a correct way (Ibid.). This research achieved the criteria of credibility when I as a researcher gave the interviewee an opportunity to give feedback on the research subject.

In qualitative research, transferability is preferred to be used instead of external validity, which is defined as to what degree the results of a study can be applied to other situations (Merriam, 1998). In other words, the issue is if it is possible to demonstrate that the results and conclusions can be applied to a wider population (Shenton, 2004). A qualitative research usually concerns a small number of certain environments and populations and thus it is not possible to display that the study results and conclusions are relevant to other situations and individuals (Ibid.). Also, the findings have a tendency to focus on a unique context of the studied reality. According to Lincoln and Guba (1985), the researcher has the responsibility to guarantee that contextual information provided is sufficient in the study. To achieve a high degree of transferability in this research, I gave a good description of the context in which this case study was conducted to demonstrate that the findings could be applicable in other contexts.

Reliability means that if to conduct the research again in the same context employing the same methods and participants, it would be possible to achieve the similar results (Shenton, 2004). It might be difficult to achieve it in qualitative research, that is why the issue of dependability is used there instead. To achieve a high degree of dependability, a researcher should report the processes within the study in detail, in this way a researcher is able to repeat a study, if not achieving the same results (Ibid.).

Confirmability concept in quantitative research corresponds to objectivity concept in qualitative research. The results of the research should be derived from the experiences and ideas of the research participants and not from the experiences and preferences of the researcher (Shenton, 2004). I tried to ensure that, as a researcher, I would not let my personal opinions and preferences affect the performance and conclusions of this study. While doing so, I increased the possibility to strengthen and validate the study which corresponded to confirmability concept (Lincoln and Guba, 1985).

2.8 Ethical discussion

While collecting data in form of an interview, the ethical principles of research, described by Vetenskapsrådet (2002), were followed. There are four main requirements

of the ethical principles of research: information requirement, consent requirement, confidentiality requirement and usage requirement (Vetenskapsrådet, 2002, my translation). Prior to the interview, the interviewee was informed about the purpose of the research, the confidentiality of information was discussed, and the materials collected were used only for the research purposes. At the interview, there was an opportunity to remain anonymous as an option, if the interviewee chose to do so. After the research, the results of the thesis have been sent to the interviewee. In this way, the four ethical principles of research were fulfilled.

2.9 Criticism of methodology

The disadvantages connected with the choice of the qualitative method are the following: a study can be regarded as too subjective, less possible to generalize and difficult to replicate (Bryman, 2011).

The disadvantage of a case study research is that it is difficult to generalize the findings from only one example (Bryman, 2011). External validity is a concern here. Although, a case study research is suitable when an author plans to investigate certain details of a subject, and not to generalize.

The empirical research was partially based on one interview which was conducted in person. The interview lasted for two hours and forty five minutes. This was necessary due to Crister Stark's limited and valuable time. However, there were opportunities to ask follow-up questions during the development of the paper. Additionally, interviewing a top manager provides direct information about the decision making inside the Board of Directors which would not be possible while interviewing lower managers who had access only to indirect information.

2.10 Target audience

The target audience of this thesis is scholars and students interested in strategy. The thesis can be interesting for those companies that plan to enter emerging markets, especially those that plan to establish themselves in Russia. The analysis in this paper is also of interest for Väderstad, since it can be used as a base when they plan to expand to new emerging markets.

2.11 Outline of the thesis

Chapter 1. Introduction.

Chapter 2. This chapter, methodology, clarifies the scientific approach, the methodological approach, the research strategy and the analysis method used as well as

the study design and the data collection method. Additionally, the quality of the study and criticism of methodology are described and discussed.

Chapter 3. In the following chapter, theoretical background, a thorough presentation of the theoretical framework which the thesis is based upon is given. Firstly, the Uppsala internationalization model is described. Secondly, the foreign market entry strategy, including the foreign market entry modes, is presented. Thirdly, various aspects of institutional theory are highlighted in connection to emerging markets. Finally, the issue of property rights is described.

Chapter 4. The fourth chapter, the empirical data, presents the data collected in this study. The empirical data in this chapter includes the description of the institutions in Russia, including networking and property rights in Russia. Then the case company, Väderstad, and its internationalization process are presented, followed by the challenges based on the Chairman's of the Board of Väderstad Group interview.

Chapter 5. The fifth chapter of the paper, the analysis, consists of the application of the theoretical framework to the empirical data collected in this thesis. Väderstad's internationalization process, foreign market entry strategy as well as the company's experience of Russia's institutional environment and the challenges it contains are presented in this section.

Chapter 6. In the sixth chapter, discussion and conclusions, the analysis of the data in this research is summed up and the main points of the analysis are highlighted. The conclusions are drawn from the analysis of the empirical data, practical and theoretical implications and future research directions are identified.

3 Theoretical background

To address the research question in what way the institutional context of an emerging market affects the entering firms' entry strategies, theoretical background on the topic is needed. In this chapter, an overview of previous studies related to the research area is presented. The purpose of this section is to define and introduce the theoretical concepts on the issue to develop a theoretical framework that will guide analysis and discussion of this study. First, the issue of internationalization is reviewed. Second, foreign market entry strategy, including foreign market entry modes, is presented. Finally, different aspects of institutional theory and property rights are highlighted in connection to emerging markets.

3.1 Firm Internationalization

The concept of internationalization has been widely discussed among business researchers during the past four decades. According to Welch and Luostarinen (1988), internationalization is the process of increasing involvement in international operations through the borders of the countries. Internationalization occurs through two mechanisms: trade and direct investment (Grant, 2013). The forces driving both trade and direct investment are the quest and desire to exploit market opportunities as well as resources and capabilities located in other countries (Ibid.).

Generally, there are many theories that explain internationalization from different perspectives. I will focus on the Uppsala internationalization model (Johanson and Vahlne, 1977, 1990, 2009). According to Johanson and Vahlne, "*internationalization of the firms is a process in which the firms gradually increase their international involvement*" (1977: 23). Also, internationalization is "*the product of a series of incremental decisions*" (Ibid.). The authors see the internationalization process as the result of incremental adjustments to the firm's and its environment changing conditions. The most significant impediments to internationalization are the lack of obtaining knowledge about foreign markets due to differences between the countries and the uncertainty caused by it and changes in the firm and its environment. Internationalization is a process which has several stages. According to the Uppsala Internationalization Model, there are four sequential stages in the process of internationalization:

1. No regular export activities;
2. Selling via agent;
3. Sales subsidiary;
4. Production subsidiary.

Johanson and Vahlne (1977) described the Basic Mechanism of Internationalization which consists of state (market commitment and market knowledge) and change aspects (current business activities and commitment decisions). Later Johanson and Vahlne (1990) updated and modified their model and offered a dynamic model of internationalization. They applied a network perspective to internationalization. The internationalization process was characterized by the development of networks of business relationships in other countries. In the updated version of the model, market commitment and market knowledge influence both current business activities and commitment decisions, which in their turn affect market commitment and market knowledge. A foreign firm prefers to expand to another market with similar market environment and where the psychic distance between the home country and the foreign countries is small (Ibid.). According to Johanson and Vahlne (1977), the psychic distance is the sum of factors preventing the flow of information from and to the market, for instance language, culture, business practices and industrial development differences. These factors make it difficult to understand foreign environments. Therefore, it is important to understand a new market's culture and environment to successfully enter this market. According to Forsgren (2008: 105), *"The Uppsala model is a dynamic model in the sense that the firm's current knowledge about a certain country's market and the investments made in the country will have a decisive influence on the future investments in that market."*

In 2009 the model was updated due to the changes in economic and regulatory environments and companies' behavior. According to Johanson and Vahlne (2009), the internationalization process depends on a firm's relationships and network (the business network internationalization process). They argue that some parts of the international market are still unfamiliar and there is only a rudimentary understanding of the market complexities that can explain the difficulties of the internationalization process. The modern international market has demonstrated to be comprised of a network of relations, where companies are linked together in complex systems that are very difficult to describe and understand. Therefore, there is a necessity of obtaining knowledge about and of the participation in the relevant networks to be successful in the internationalization process. In the same way as it is significant to belong to a network, it is very risky to be outside a network. The relations that one obtains while creating or joining the networks result frequently in the following: companies can obtain experience from others, and build trust and loyalty which are important factors for a successful establishment on a market (Ibid.).

According to Johanson and Vahlne (2009), firms are involved in business networks that consist of actors which are involved in different interdependent relationships. Internationalization in this case is the result of actions of a firm to reinforce network

positions. Also, it is characterized by high levels of uncertainty. The internationalization process is frequently built on relationships with companies established earlier since they contribute to exploit the opportunities in new markets. In 2009 model, there are two sets of mutually dependent variables: state variables (knowledge opportunities and network position) and change variables (relationship commitment decisions and learning, creating and trust-building). Firms expand due to finding lucrative business opportunities in new markets or existing of a relationship partner who is already there or moving there. There are mutual trust and commitment between companies which are established due to common history and not on formal agreements. The psychic distance is somewhat shorter in modern times, however, it is still significant. Foreign market knowledge can be received from the relationship partners. In conclusion, Johanson and Vahlne (2009) claim that challenges and opportunities in international markets' expansion depend more on relationships between companies and their networks than on the characteristics of a country where foreign firm expand.

3.2 Foreign Market Entry Strategy

More and more companies participate in international business and thus perform on international markets. These companies' profitability and growth are influenced by these markets. That is why the importance of the internationalization process, international business strategy and decision-making is increasing. According to Hollensen (1998), international market entry strategies are the main strategic instrument for companies that plan to expand internationally. Root (1994) claims that entry strategies assist in determining the objectives, policies and resources in order to design a company's actions on a new market for better profitability, performance and growth. As soon as a company decides to expand to a new market, it should develop various strategic alternatives that differ depending on target markets, as well as various entry modes types. According to Deresky (2000), environmental factors and risk should be taken into account while developing entry strategies to best enter a new market since they are important for firms' survival and performance. According to Terpstra and Sarathy (2000), the choice of method of foreign market entry is one of the most significant decisions in the process of internationalization. The entry mode choice of firms is an important part of an internationalization process (Morschett et al., 2010).

3.2.1 The Foreign Market Entry Modes

Choosing an entry mode for a new foreign market is one of the most essential decisions while developing strategy for a company. Market entry mode is an important part of any international strategy (Koch, 2001).

Among the factors that influence market entry mode selection of foreign firms are the following: market entry barriers, transportation costs, characteristics of the country business environment, profit targets, competencies, skills and capabilities of entrants, resources of entrants and others (Koch, 2001). If a company chooses a not suitable entry mode in the beginning of the internationalization process, it may be a threat for a company's future expansion (Hollensen, 1998). The factors which affect a company's choice of an entry mode are divided into external and internal ones (Johanson and Vahlne, 1977; Hollensen, 1998). The external factors belong to a company's environment and the internal ones are shaped by a company. The institutional factors belong to the external factors and thus need to be considered while choosing an entry strategy. Host countries' institutions shape market entry strategies and modes of firms (Hoskisson et al., 2013).

According to Root (1994), foreign market entry mode is an arrangement that constructs an opportunity for a firm's production, technology, management, human or other resources to penetrate to a foreign country. Driscoll (1995) developed a comprehensive framework of the entry modes choices. Driscoll (1995) described three main foreign market entry modes: export, contractual and investment entry modes. Export modes can consist of either a direct export from home to foreign market or through an appointed company. The contractual entry modes consist of, for instance, franchising, licensing, turnkey contracts, management contracts, technical know-how and non-equity joint ventures. The investment entry modes comprise of joint ventures, start-up investments and acquisitions. According to Driscoll (1995), the main characteristics of the entry modes are level of control, dissemination risk, resource commitment, flexibility and ownership.

The entry modes choices are significant for firms' international business strategy success and while considering which entry mode to choose from some factors should be taken into consideration. These factors are situational influences, which include firm factors (firm-specific advantages, experience and strategic considerations) and environmental factors (demand and competitive conditions, political and economic conditions, and socio-cultural conditions), and moderating variables (government policies and regulations, corporate policies and firm size) which affect a company's choice of entry mode (Driscoll, 1995). First, a company should evaluate the two situational factors and, secondly, it should recognize the possible moderating variables which determine the entry mode. It is important to choose a correct entry mode for a company since the effectiveness of a chosen business strategy depends on it. Driscoll (1995) underlines that there is no perfect entry modes for a foreign market that would fit under all conditions. Thus, firm factors, environmental factors and moderating factors

should be all taken into account while choosing an entry mode to achieve successful internationalization.

3.3 New institutional economics

According to Brouthers and Hennart (2007), there are the following widespread theoretical perspectives on the entry mode choice: the resource-based view, transaction cost theory, institutional theory and Dunning's eclectic framework (which integrates the factors from the other three perspectives). Another approach on firm strategy is represented by Porter (1980), the industry-based approach which is based on the forces of competition within an industry. As mentioned previously, this study employs an institutional theory perspective on foreign market strategy, although it is not the only perspective influencing foreign market entry strategy.

There are three dominant institutional approaches in international business research according to (Hotho and Pedersen, 2012):

1. New institutional economics;
2. New organizational institutionalism;
3. Comparative institutionalism.

According to institutional economists, institutions are closely connected with habits and cultures (Hotho and Pedersen, 2012). They also state that the nature of exchange processes and the amount of "friction" depend on the institutional context in which they arise. For example, the level of transaction costs is influenced by the extent to which the institutional context protects property rights and eases the enforcement of contracts (Ibid.). Additionally, "*the specific institutional constraints dictate the margins at which organizations operate*" (North, 1990: 110). In new institutional economics, the efficiency of the institutional framework is considered to directly influence the performance of markets, organizations, as well as economies (Hotho and Pedersen, 2012).

North (1990: 3) defines institutions as "*the rules of the game in a society or, more formally, [...] the humanly devised constraints that shape human interaction.*" Organizations are the players of the game (Ibid.). Institutions can be formal, which consist of political, economic and legal systems (e.g. regulations, rights, laws, constitutions) and informal, which are represented by social norms and values (e.g. traditions, customs, cultural norms, sanctions) (North, 1990). The main role of the institutions is the reduction of uncertainty and providing meaning to the inhabitants of a certain society. Institutions transform and alternate incrementally over time. It is possible to change institutions' formal rules overnight as the result of political or

judicial decisions, however, informal institutions are more difficult to alter because of informal constraints embodied in customs, traditions, and codes and, therefore, they are more resistant to change (North, 1990: 6). Tihanyi, Devinney and Pedersen (2012) describe the unpredictable rule emergence in emerging markets as an institutional shock.

“Institutions [...] determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions.” (North, 1990: 7). In institutional theory, firms are viewed as rational economic actors that aim for achieving maximum economic efficiency by adjusting to the institutional environment. According to North (1990), institutional theory is closely connected to transaction cost theory. North uses transaction costs concept as an indicator to illustrate the importance of institutions. According to North, the cost to receive information is the key to transaction costs:

“The costliness of information is the key to the costs of transacting, which consist of the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements. These measurement and enforcement costs are the sources of social, political, and economic institutions” (North 1990: 27).

3.3.1 New institutional economics in international business research

From the perspective of new institutional economics, institutions are significant for international business since host countries' institutions affect the costs and a level of uncertainty foreign firms encounter while expanding there (Hotho and Pedersen, 2012). Efficient host country institutions decrease transaction costs and the level of uncertainty (Meyer, 2001). According to Meyer (2001: 358), *“institutions reduce transaction costs by reducing uncertainty and establishing a stable structure to facilitate interactions.”* However, in emerging economies the transaction costs are usually higher than in developed ones, *“the lack of knowledge of markets and of the functioning of a market economy thus magnified transaction costs in the transition context”*.

Therefore, the quality of institutional framework influences not only local investments performance, but also the suitability of alternative governance forms. For instance, firms prefer to enter through wholly owned subsidiaries in host countries with well-functioning institutions than in countries with less developed institutional framework. Moreover, developed institutions lower the risks of acquisitions and facilitate the understanding of policy environment (Hotho and Pedersen, 2012).

Increasing interest in institutions in international business field coincides with the growth of many emerging markets. The development of these types of markets creates new issues in research. For instance, how firms deal with the absence of a strong institutional framework and the lack of intermediaries, “institutional voids” in other

words, in emerging markets (Khanna et al., 2005). How foreign firms deal with such “institutional voids” peculiarities may explain the performance of companies. Additionally, foreign firms entering a new market must adapt their strategies to the new country environment (Meyer, 2001). These strategies should be adapted to the demands of the institutions in emerging economies since institutions constrain or facilitate business (Ibid.).

The new institutional economics approach in international business focuses on institutions on the country level (for instance, rules and regulations). Such institutions may affect transaction costs and to restrain market actors in pursuing their interests.

3.4 Institutional theory

Some of the most important issues in the field of international business are what drives firm strategy and what factors determine the success and failure of different firms (Peng, Wang and Jiang, 2008). Generally, there are three leading perspectives in strategic management that address these questions (Ibid.). Porter (1980) is a representative of an industry-based view. According to this perspective, conditions within an industry shape firm strategy and performance. Barney (1991) represents a resource-based view, according to this perspective, strategy and performance of a firm are driven by its specific differences in form of resources and capabilities which contribute to its competitive advantage. Recently another perspective on strategic management has emerged, an institution-based view (Peng, Sun, Pinkham and Chen, 2009). Peng et al., (2008) state that the institution-based view is the third leg of the strategy tripod. Before, the institutional foundation that represented the context, where companies competed, was ignored, the institutions were considered as a “background” by researchers (Peng et al., 2008). This institutional context of a market is shaped by the countries’ institutions and they influence the actors there (Ibid.). In earlier researches the context where companies competed was neglected, in more recent studies many researchers argue that in international business research the focus should be more on the institutional context (Meyer, 2001; Peng et al., 2008). According to Peng et al., (2008: 922), *“an institution-based view of strategy focuses on the dynamic interaction between institutions and organizations, and considers strategic choices as the outcome of such an interaction.”*

Institutional theory concentrates on the issue how the political, social and economic systems in the environments where companies perform influence these companies’ actions (Wright et al., 2005). This study, addressing the research question, in what way different institutional contexts of emerging markets affect the firm’s strategies that expand there, takes an institutional theory approach.

Institutional theory is predominant in assisting to explain effects on enterprise strategies in emerging markets since government and societal influences are more powerful in emerging economies than in developed economies (Hoskisson et al., 2000). Evidently, other theoretical perspectives in strategy field, such as transaction cost and the resource-based view of the firm, also assist in addressing this issue and they are important as well, and, therefore, it is necessary to consider the interaction between different theories to see the whole picture (Ibid.).

Institutional theory highlights the impacts of the systems that surround organizations and determine societal and organizational behavior (Scott, 1995). Institutional forces influence decision making and actions of organizations (Hoskisson et al., 2000). In an economy, the role of institutions is to decrease both transaction and information costs via reducing uncertainty and establishing a solid structure to assist interactions. The institutional environment, which consists of cultural, political and other factors, influences enterprises in emerging economies. Institutions can assist firms in developing strategies while letting them to act in an institutional environment if firms are able to adapt to institutional constraints (Ibid.).

Institutional theory focuses on institutional features of the environment that affect businesses in different ways (either encouraging or restraining it), thus incorporating context into this approach to strategy (Xu and Meyer, 2013). Institutional contexts differ in various countries, especially in emerging economies, thus, institutions deserve special attention in research (Hoskisson et al., 2000). Although institutional theory is called a theory, it is not only one theory; there are many theoretical arguments of how and why institutions matter. For instance, according to Filatotchev et al. (2007, 2008), institutions affect market actors' motivation and, in this way, the efficiency of alternative governance structures which, in their turn, influence strategic decisions. Also, institutions influence the markets' efficiency and, therefore, transaction costs encountered by actors on these markets. Because of the absence of market-supporting institutions, companies encounter so-called "institutional voids" (Khanna and Palepu, 1997). Firms react by developing strategies to avoid poorly-functioning markets or building substitutes for formal institutional support (Xu and Meyer, 2013). Institutions influence the rules of competition as well, for instance, via monopolies (Ibid.). Additionally, institutions and institutional factors influence the level of uncertainty. Institutions are created to reduce uncertainty (North, 1990), although the fact that they may change due to some factors (e.g. change of government) provides uncertainty by itself (Xu and Meyer, 2013). As a result, companies that expand to emerging economies realize that it is necessary to adapt to changes on these markets to succeed. It should be noted that not only institutions affect economic actors on markets, they are affected by them as well (Ibid.).

Institutional theory represents an alternative approach to illustrate foreign firms' ownership-based entry mode strategies in host country markets (Meyer, 2001). While transaction cost theory concentrates on the individual transaction technical environments, institutional theory focuses on the investigation of different institutional contexts in various countries and their influence on companies' ownership strategies (Ibid.). Institutions constitute the structure where transactions take place, therefore, institutional theory is related to transaction cost theory (North, 1990). Different countries have different environments with various levels of institution effectiveness (Demirbag, Glaister, and Tatoglu, 2007). Institutions and institutional factors play an important role in emerging economies since their poor functioning in societies increases risk level and transaction costs (Meyer, 2001). Institutions support organizations, and if they are efficient, they could improve a business environment for firms in host countries (Demirbag et al., 2007). Additionally, institutional environment of a host country affects foreign companies' entry mode decisions (Brouthers, 2002). Emerging markets differ considerably in terms of institutional development (Peng, 2006). According to Wright et al. (2005), institutional changes in transition economies influence foreign companies' entry mode decisions. The institutional theory considers national culture as a significant factor in firms' market entry decisions (Demirbag et al., 2007).

Organizations are influenced not only by the industrial institutional arrangement, but also by institutional settings specific for a country (Ahlstrom and Bruton, 2006). The institutional differences of countries are not just cultural differences; they are the differences in fundamental elements in a country's law, regulations, business norms, and enforcement. Institutions are situation specific, and that is why a country's institutional characteristics should be measured taking into consideration to a specific phenomenon rather than measuring in general arrangements. Organizational actions and strategy are affected by institutional environment (Ibid.).

3.5 Institutional voids and emerging markets

Emerging markets differ from developed markets (Meyer, 2001). According to Khanna and Palepu (2000), one important difference between them is presented in the configurations of institutions that govern them. In the emerging markets, there is an absence of intermediaries (e.g. market-research firms) that efficiently connect buyers and sellers which creates difficulties for actors operating on these markets (Khanna and Palepu, 2010). Khanna and Palepu (1997, 2010) use the term "institutional voids", or "soft" infrastructure in other words, to address the lacunae made by the absence of such market intermediaries that prevents a company from acquiring reliable market information.

Institutional voids are constructed by the larger emerging economies' macro context, thus, politics, culture and history influence the development and functioning of institutions and the existence of institutional voids (Khanna and Palepu, 2010). Companies should develop the capabilities to notice institutional voids to achieve success in a market (Ibid.).

In developed markets, there are specialized intermediaries (e.g. financial institutions) present there and the institutional voids are going to be filled by the market participants themselves because of exchange and processing of information (Khanna and Palepu, 2000). In such a way, developed markets have a tendency to be governed by governmental institutions together with institutions constructed by the participants themselves through information exchange and management (Ibid.). In contrast to developed markets, emerging markets often miss such specialized intermediaries and, in this way, institutional voids may not be filled in. According to Khanna and Palepu (2010), to succeed in an emerging market, one should understand these voids and be able to work with them.

It is not possible to act in emerging markets without dealing with institutional voids (Khanna and Palepu, 2010). Once the institutional voids are identified, firms can overcome them. The problem is that most companies have chosen to stick to the strategies they have traditionally deployed, which highlight standardized approaches to new markets while sometimes experimenting with a few local twists. As a result, many multinational corporations are struggling to develop successful strategies in emerging markets (Khanna and Palepu, 2005). According to the authors, successful companies develop strategies for doing business in emerging markets that are different from those they deploy at home and find innovative ways of implementing them (Ibid.). Such companies also customize their approaches to fit each nation's institutional context. As a result, the companies that take the trouble to understand the institutional differences between countries are likely to choose the most fitting strategies and make the most out of operating in emerging markets. While responding to institutional voids, companies may have the following strategic choices: "*1. Replicate or adapt, 2. Compete alone or collaborate, 3. Accept or attempt to change market context, 4. Enter, wait, or exit*" (Khanna and Palepu, 2010: 41).

3.6 Networking and trust

Networking is a mechanism to overcome the deficiencies in institutional structures (Peng, 2000). In emerging markets, where institutions do not function that well, individuals count on the networks to solve certain issues (Meyer, 2001). Also, since there is information asymmetry and corruption on these markets, network connections

assist in overcoming such settings (Ibid.). Firms act in certain contexts and the institutional environment is essential for them (Puffer, McCarthy, Boisot, 2010). Formal institutions diminish transaction costs by employing contracts and property rights which deters the necessity of building trust relationships between individuals and organizations (Ibid.).

Emerging economies are likely to have fewer formal institutions and more institutional differences to compare with developed economies. For instance, it is difficult to find skilled personnel with good competencies in a new country, that is why foreign firms rely upon connections with individuals whom they already know to make sure that they can provide the necessary competencies (Ahlstrom and Bruton, 2006).

The reliance on networks helps to avoid any negative issues connected with the deficiencies of formal institutions in emerging markets (Ahlstrom and Bruton, 2006). Foreign firms become less dependent on the industry criteria and more dependent on personal relationships. Also, not only connections to some local individuals and firms are important, but also connections to main government officials. Apparently, networks are important and can substitute for the lack of formal institutions, but using only them is not enough to solve all the issues foreign firms face. However, if institutions become more formal in the future, foreign firms will rely on them instead of relying on informal institutions, such as networks (Ibid.).

Trust plays an important role in economy, without it there are no investments and transaction costs are higher, and, as a result, the development of a country's economy is slowing down (Kharchilava, 2009, my translation). Trust is defined as a hope that individuals we depend upon will act according to our expectations. Market transactions are connected with certain transactions costs, for instance, the ones linked with searching for a business partner. Certain mechanisms on the market are designed to reduce these transaction costs. Such measures as making formal contracts and addressing the court in case of breaking the agreement are often inefficient. Trust as an informal institution is able to not only effectively complement the formal mechanisms, but also to replace them. High level of trust allows creating different types of social contracts. On the contrary, individuals who do not trust each other can interact only within the formal rules framework (Ibid.). Trust is the basis for investment into a company (Kharchilava, 2009, my translation). The level of development of a country depends on its national strategy which is based on trust since it is the way to guarantee the investment attractiveness for other countries. Trust as an efficient institution in the institutional environment optimizes transaction cost before and after making contracts and provides reduction of the level of asymmetric information and thus increases the efficiency of the institutional environment. Also, trust institution reduces the level of

uncertainty. Thus, trust is one of the regulatory market mechanisms and economy as a whole (Ibid.).

3.7 Property rights

Property institutions are all standards that regulate access to resources (Maryin-Ostrovskiy 2008, my translation). The necessary condition of the effective market work is a clear definition, or a “specification” of property rights (Vinogradova, 2012, my translation). The more precisely defined and reliably protected property rights are, the tighter the connection between economic actors’ actions and their wealth is. In this way, specification allows to adopt the most economically efficient decisions. The opposite, plan economics’ attenuation of property rights happens when they are not clearly defined and poorly protected, or they are limited in some way (Ibid.).

In his work “Theory of property rights”, R.I. Kapelushnikov (2008) defined the following types of property attenuation:

1. Poor property rights protection;
2. Unclear definition of the phenomenon;
3. Many limitations of property rights.

R.I. Kapelushnikov (2008) claims that the necessity of property rights specification is necessary when a resource is rare, the clear limits of property rights object are needed to be defined, and it is necessary to limit other individuals’ access to this resource. The main thesis of this theory is that the development of specification of property rights is not for free, it requires a lot of expenditures. The accuracy of the specification depends on the balance between the benefits and the transaction costs which accompany the establishment and protection of property rights. Property rights theory makes the following conclusions:

- The more undefined property rights are, the higher transaction costs are;
- The unprotected property rights create disturbances from external factors;
- The stronger rights of the resource one has, the more value it has (Ibid.).

All of these have high influence in the effective usage of the resources. Property rights are one of the sources for long term economic development (Radygin and Antov, 2008, my translation). The higher the level of development of private property institution is, the bigger their positive influence on the long term economic development, investments and financial market efficiency is (Ibid.). According to OECD (2002), the protection of property rights requires a sufficient legal framework and potent enforcement. The most important condition of property rights function in market economy is a strict limitation of the executive power authority in property relations area (Radygin and Antov, 2008,

my translation). Additionally, the more widespread the corruption of government officials is, the fewer opportunities to strengthen market institutions and competitive mechanisms are. In those countries, where judicial organs have relatively higher independence, the private property rights are better protected (Ibid.).

Various types of property are a necessary condition for efficient economic development (Perepelitsa, 2006, my translation). It is the relation between owners concerning property subject's usage that form the basic framework of the institutional environment. An important condition for the institutional environment functioning is a clear definition of property rights. The development of property rights legislation, their legal compliance and formation of property rights protection institutions contributes to the reduction of transaction costs, and, as a result, to the increase in production and trade, and more rational distribution of resources. It is important how the property relations are regulated and what conditions exist for their efficient realization. The role of the state is the creation of legislative and legal conditions for property rights compliance (Ibid.). However, the mechanism which could provide the reliable enforcement of property rights - well-functioning and trustworthy judicial system, which is a necessary element of market infrastructure, is not functioning properly (Perepelitsa, 2006, my translation). Without this element of the institutional environment, the majority of companies of the market solve their "issues" without addressing the courts, and, as a result, the companies have higher transaction cost due to interaction with the subjects and regulators of the market and this, correspondingly, influences the financial status of the companies (Ibid.).

4 Empirical data

This section presents the empirical data collected in this study. It includes the description of the institutions in Russia, including networking and property rights in Russia, written both by the western and the Russian scholars. Then the case company, Väderstad, and its internationalization process are presented based on the Chairman's of the Board of Väderstad Group interview.

4.1 Institutions in Russia

According to OECD (2013), Russia needs to strengthen the formal institutions, first of all the judiciary, and enforce the access to international arbitration to boost investor confidence. Institutional environment in Russia is characterized by not fully developed legal and financial infrastructure, corruption on all levels of government, resistance to make changes in bureaucracy and administrative discretion (Luthans, Stajkovich and Ibrayeva, 2000). One of the main characteristics of Russian business is uncertain legitimacy of formal institutions and this encourages the dependence on informal institutions (Puffer and McCarthy, 2011). Uncertainty in business development has been influenced by corruption, impeding the entrance of new companies (Bowen and De Clercq, 2008). Investors are often shocked by the barriers when it comes to investing in Russia, there is changing tax regime, unpredictable and uncoordinated government policies, poor rule of law, absence of contract law, unforeseen and constant changes in legislation, poor property rights and lack of international accounting standard OECD (2002a). Russia is ranked market 112 among 185 countries in the ease to register property, start a business and to pay the taxes (The World Bank, 2013).

Thus, companies have realized that networking to political power is the way to survive on the Russian market. Even though it has been some progress in institutional development in Russia, the existing formal institutional void still creates uncertainty and risks for foreign firms, in this way making them to rely on informal institutions (Puffer et al., 2010).

In the countries with “stronger” institutional structure, the influence of destabilizing macroeconomic politics is less significant. The countries with “weaker” institutions are more affected by various crises (Radygin and Antov, 2008, my translation).

The institutional environment in Russia is characterized by certain features. First of all, the political institutions which could effectively restrict the actions of the authorities on different levels are limited (Radygin and Antov, 2008, my translation). Second, while talking about the Russian economy and political system, it is not enough to employ the term “corruption” since the corruption is systematic. It is possible to say that there is so-

called “corruption loyalty” – one continuously has to be involved into the corruption activities. Third, there is a chronic lag between the changes in the legislation system and their application to the economic realia (usually a lag between 4 to 10 years). Additionally, “double standards” and various rules of market games for different markets actors are formed in the market and thus it contributes to unfair competition (Ibid.).

The Russian state itself can be considered to be an informal institution (Puffer and McCarthy, 2011). According to OECD (2013), the Russian state owned enterprises counts for more than 50% of Russia’s economy. Moreover, the laws are applied selectively by certain market actors, allowing them to gain more power than others in the market (Radygin and Antov, 2008, my translation). Such “double standards”, various rules of market games and selective laws application create increasing obstacles both for the formation of the institutional environment and the local institutional changes. According to OECD (2013), the Russian state property management overlooks the action of the state owned companies, but the companies’ senior management still has limited accountability.

Another feature of the institutional environment in Russia is negative interaction of the key institutions, for instance, between the property rights system and the financial system. This negative interaction indicates indifference in making fair rules and excludes the possibility of efficient settlement in separate segments of the market. Last, but not least factor, according to Radygin and Antov (2008), is the strengthening of the “state capitalism” model in the Russian institutional environment.

Due to the institutional void, there is a system of inefficient institutions in Russia (Vinogradova, 2012, my translation). This system of inefficient institutions which appeared as a result of ineffective property rights, the imperfection of institutional mechanism and attenuation of institutional environment, plays an important role in the Russian economy (Ibid.).

Formal institutions leave some gaps that are filled by informal institutions (Estrin and Prevezer, 2011). The informal institutions are complementary to the formal institutions and can assist them in working more efficiently. Informal institutions solve problems that are not addressed by formal legislation and the informal institutions do that without violating the rules, additionally informal institutions increase the efficiency of the formal institutions. Russia is characterized by informal institutions that do not cooperate with each other and corrupt conduct that undermine the formal institutions. The corruption of Russian authorities is well documented. According to OECD (2013a), 37% of the Russian population believe that corruption have increased in the last 2 years, there is unequal application of legislation, corrupt law enforcement and weak judicial

institutions (OECD, 2013a). On the other hand, companies and enterprises report less that corruption is a serious problem. In 2011 33.5% of the respondents noted that it was a serious problem compared with 50% in 2008 (The World Bank, 2013a). In 2011, Russia also signed OECD anti-bribery convention (OECD, 2011b).

4.2 Networking in Russia

In Western countries, institutions are founded on the basis of trust; individuals trust formal institutions, for instance government. In Russia, such institutions are not fully developed to compare with other developed countries. Additionally, individuals do not traditionally trust outsiders and formal institutions in the country and all these factors accentuate the tendency to rely on relations instead (Puffer, McCarthy, Boisot, 2010). Russian companies have entrusted much informal institutions, such as networks, to execute business activities because of the weaknesses of formal institutions, or, in other words, formal institutional voids (Puffer and McCarthy, 2011). Russian society is characterized by low trust while formal rules are contradictory and enforcement is incomplete which contributes to uncertainty (Puffer et al., 2010). All these factors contribute to the reliance on relational contracts which include implicit agreements based on trust and networks. Trust is especially critical in business since the cost and efficiency of transactions are affected by it. Moreover, trust can reduce risk, uncertainty and control need in difficult situations (Ibid.).

There is the presence of the formal institutional void in Russia (Puffer et al., 2010). There is a cultural trend to distrust individuals, organizations and companies that do not belong to the personal relationships in the country and thus it is problematic to establish trusting relationships with outsiders. Additionally, decisions in business and in private life are usually made based on relationships rather than rules of behavior. Trust is an important element in the functioning of social networks, especially in business. It is possible to say that trust holds networks together. New emerging market entrants build such networks to receive assistance in obtaining resources, gaining legitimacy and identifying opportunities. Moreover, being a member in a network, it is feasible to achieve social capital that is represented by advantages from knowing others. Thus, networks increase the chances to succeed for a foreign company (Ibid.).

Businesses seem to depend on networks which are based upon trust, especially on the first stages of business (Puffer et al., 2010). Networks are especially essential in the emerging markets because of the institutional voids and the inclination to rely upon cultural mechanisms such as informal institutions. Additionally, taking into consideration high uncertainty and risks on such markets, networks can provide support to businesses and protection from interference with the businesses. It is a challenge to

build trust relations beyond personal networks. Also, it is difficult not to play according to the rules of the game – according to informal institutions in emerging markets-even if foreign firms want to break up with this tradition (Ibid.).

4.3 Property rights in Russia

There is an absence of well-specified and protected property rights system in Russia (Maryin-Ostrovskiy, 2008, my translation). So far the state authorities have not been separated from property legislation and business do not have clear and definite rules of their function and interaction with the authorities (Ibid.). According to OECD (2002), if Russia assigned efficient property rights, efficient institutions would appear. The uncertainty in property rights limits the possibility of investments in assets and debts and it is negative for the growth of Russia.

The unclear direction and instability, the corrupt law enforcement and judicial systems, and poor protection of private property rights have contributed to a turbulent environment for companies in Russia (Puffer and McCarthy, 2011). According to OECD (2002), the shortcoming of law enforcement by the institutions is a major problem in Russia.

Puffer and McCarthy (2011) state that the privatization was the main factor that contributed to weak legislation of these institutions. Privatization was conducted in order to create a new formal institution by legitimizing private property. According to OECD (2013), the planned implementation of privatization and clear rules of the game for state controlled enterprises would increase the investments. OECD (2002) claims that Russian factories were the extensions of the Russian ministries and there was no concept of private property connected with the companies.

According to Vinogradova (2012, my translation), the evolution of property rights in Russia in the post-Soviet period can be presented as following:

- The Soviet period, state property;
- 1988-1991 The period of Russian privatizations;
- 1992-1996 The effect of attenuation of property rights has grown;
- 1996-2003 The necessity of the property rights specification period;
- 2004- The hidden or complicated forms of redistribution of property rights.

Property rights can be guaranteed and protected not only by the state and law, but also by the informal institutions, such as religion, morals, customs etc. (Maryin Ostrovskiy, 2008, my translation). Property rights have the regulatory function of social and economic environment. From the point of the view of the society, property rights are “the rules of the game” which regulate the relations between different agents. In the last

years of the Soviet Union and the post-Soviet time, in the country there were some situations where the obstacles were created for efficient property rights system development in society by organizations which used the previous situation to their advantage i.e. the situation where some players and social groups maximize their utility (Ibid.). Privatization of the Russian state property was supposed to be supported by different formal institutions such as effective law enforcement mechanisms and effective government (Puffer and McCarthy, 2011). Instead, the Russian oligarchs took charge of the assets of the country. All these developments weakened the formal institutions of the country, and led to ineffectiveness and corruption of the government and the legal system. The privatization failed to accomplish the goals of society and resulted in formal institutional void. The void was filled by informal institutions such as networking (Ibid.).

Maryin-Ostrovskiy (2008) suggests that the property institutions in Russia have emerged under the influence of two groups of the players. The first group is represented by the state authorities; the second one is represented by the business actors. Although, it should be noted that sometimes there are no clear boundaries between these groups, the authorities merge with the business structures and the business actors merge with the authorities. In this way, the property institute has emerged as a result of a particular interaction of the authorities and the business actors in Russia. This interaction has been built on the basis of employing so called “black” “white” and “grey” schemes of the game. The “black” scheme strategy represents the interaction only within the informal institutions, sometime even directly violating the legal norm. The “white” schemes are correspondingly built on the interactions within the limits of the law. Finally, the “grey” schemes are the most widespread type of interaction where the formal institutions are used informally. Through these strategies, the authorities and the business actors aim to realize their particular interests. If to view the authorities’ interests to the business actors, one of the important ones is corporate social responsibility of the business actors. Under certain circumstances, it seems logical for the state authorities to move their direct responsibilities to the business actors. In contrast with an ideal model of the market economy, where the state realizes its function using the tax payments from the business actors, in Russia, there is a practice of moving social responsibility to different economic actors instead (Ibid.).

The reasons for the formation in Russia an unspecified system of property rights and an inefficient property institution as a whole seem to be in the disinterest of the main actors from both sides, the state authorities and the business actors in the formation of such institute (Maryin-Ostrovskiy, 2008). The authorities got the opportunity to format the institutional environment in their own interests, and their contacts with the business actors have pragmatic character. At the moment, any institutional change in property

rights works in one direction only and the state prefers to form certain “rules of the game” to solve its own tasks or issues. There is a state oriented property rights system, so to speak. It is possible to make a conclusion that the main reason for the absence of an efficient property rights system in modern Russia has some institutional implications. No one of the key actors in the market was really interested in the effective property institution. According to the author, currently the property rights system is being formed under the state control (Ibid.).

4.4 Väderstad Group

Väderstad Group is a family owned Swedish producer of agricultural machines. Crister Stark is the Chairman of the Board of the company, Christina Stark is the CEO, Andreas Stark is the Production Director and Bo Stark has the position of the Marketing Director in Nordic countries. Siw Stark is a co-owner but she is not involved with the daily management of the company (Väderstad 3, 2015, my translation). Crister Stark is the largest stock owner in the family with a total of 29,25% of the votes (Årsredovisning, 2013, my translation).

Väderstad group was founded in 2013 when Väderstad-Verken AB acquired the Canadian company Seed Hawk. When this acquisition of Seed Hawk took place, the company management decided to restructure the organization to a holding company called Väderstad Holding AB and the current managing director for this group is Christina Stark (Väderstad 2, 2015, my translation).

4.4.1 Company background

Runes Mekaniska Verkstad AB was founded by Rune Stark in 1962 and he manufactured and sold a rigid tine harrow. The harrow was more robust than the competitors' one on the market, and soon it gained a good reputation on the local market among other farmers nearby Väderstad village. Runes Mekaniska Verkstad AB continued to grow rapidly and was renamed to Väderstad-Verken AB in 1972 and became well known among farmers within all of Sweden (Elderud and Stark, 2012).

Väderstad-Verken AB is currently a manufacturer of agricultural machines and it specializes on seed drills, cultivators, harrows and rollers that suits different markets and climate zones (Väderstad 1, 2015).

In year 2013 Väderstad Group have a turnover of 2.211MSEK with the operating profit of 121 MSEK and the solidity of 41%. Väderstad Group has 1045 employees around the world (Årsredovisning, 2013, my translation).

In September 14, 2014, Väderstad-Verken AB had to announce layoffs of a total of 100 employees. The CEO Christina Stark identifies the crisis in Ukraine and Russia as the

main reason for this action combined with declining grain prices, declining exchange rates and less government subsidies (Corren, 2014, my translation).

4.4.2 Väderstad Group organization

Väderstad group consists of a holding company with four branches. Väderstad-Verken AB is the parent company containing the production facility in Väderstad and 12 subsidiary companies (Årsredovisning, 2013, my translation).

Vaderstad LLC, RU is a holding company that contains the Russian sales subsidiary and the Russian production facility Vaderstad Production LCC, RU (Årsredovisning, 2013, my translation).

Seed Hawk is situated in Canada (Årsredovisning, 2013, my translation). According to Crister Stark, Svensk Presshårdning was acquired due to the strategic importance for Väderstad and they manufacture discs for all of the machines. Väderstad Farm AB manages the agricultural lands that belong to the Stark family in Väderstad (Ibid.).

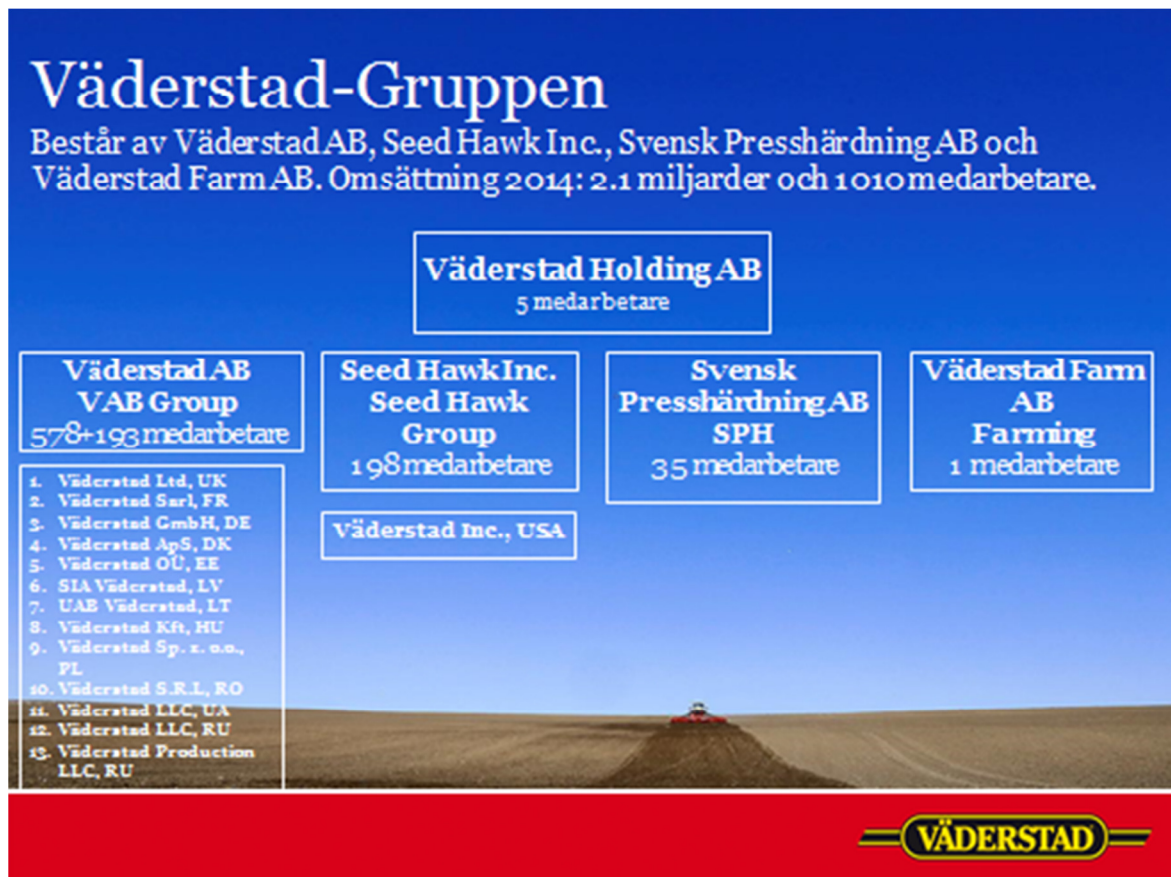


Figure 1, Väderstad Group organization chart, Väderstad's internal documentation.

4.4.3 Väderstad's market presence

According to the World Bank (2014), there is growth in the agricultural market. Due to the growth of up to 9 billion people year 2050, there is a need to increase the production of food with 50%. There is a need to use the water supply and farming land more efficient and to invest in modern equipment. According to Monsanto (2011), there is a change in diet in developing countries, since more protein is consumed and that increases the demand for grain, water and land.

According to Crister Stark, Russia was the biggest market for Väderstad Verken AB in 2013 before the recent decline. According to OECD (2013), Russia is focusing on a new agricultural program between the years 2013-2020 and they will favor production growth and reduce import of agricultural products.

Väderstad is present in 40 countries and they export approximately 90% of all produced machines. There are 12 subsidiary companies focused on sales and service and several importers around the world (OECD, 2013).

In Figure 2 below, in 2013 the main markets are Russia, Sweden, Great Britain, Germany and France for Väderstad.

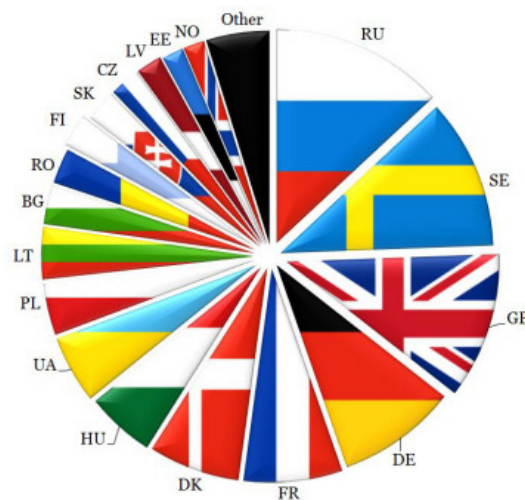


Figure 2, Väderstad turnover by markets, (Väderstad 4, 2013)

According to Christina Stark, Russia and Ukraine counted for about 20 % of the total market for Väderstad and that was greatly affected by the market decline during 2014 (Corren, 2014, my translation). The decline was identified in the annual statement of 2013 and Cristina Stark states in the section called “Expectations” in reference to future development that the insecure situation in Ukraine and the surrounding regions will affect the sales negatively, but it is difficult to predict the outcome in the future annual results (Årsredovisning, 2013, my translation).

According to Crister Stark, there are several competitors active in the agricultural equipment market. There are the European based ones: Horsch, Amazone and Lemken and the American ones, such as Kinze, Great Plains and John Deere. All of these competitors are currently present in the Russian market with either sales subsidiaries or production facilities. Depending on the local farming conditions, sales subsidiaries and market penetration, the market share varies between the companies. The growth and need of modern machines to feed the population in world is imminent (Ibid.).

4.5 Väderstad's historical export background

Väderstad Group has a long history in exporting and working in different institutional contexts. Norway was the first market for export and the future emerging market of Kenya was a small export market of a niche product of horse drawn machines (Elderud and Stark, 2012).

According to Crister Stark, the Soviet Union was at that time a closed market. The aim of the Soviet Union was to produce machines for their own needs inside the country. If agricultural equipment was to be imported, then the state-owned Traktoroexport was the only partner and they had an office in Södertälje.

Crister Stark claims that Väderstad management was approached by Boris Pankin, the ambassador of the Soviet Union in Sweden, him and his wife Galina got on friendly terms with Crister and Inger Stark, and they visited Väderstad on several occasions during the early eighties. The company did not know much about the Soviet market, and there were very few persons with experience to ask. Crister got summoned to a meeting in Moscow, however, they met the wrong people and industries not connected to agriculture so it was a waste of time. After this meeting, Crister Stark called his friend Boris Pankin and Vladimir Sheremetiev, the agricultural attaché of the Soviet Union in Stockholm, and said that *"if this is Soviet Union, it is not for us"*. The Ambassador was very sorry, he apologized and said that Väderstad needed to be patient and he would help to get new meetings and to meet new persons. After this phone call the meetings continued and the business was in progress. They also got acquainted with the agricultural minister of the Soviet Union and he also visited Väderstad (Ibid.).

The company got orders to deliver a few machines, and Väderstad feared that they would just copy the machines and had no real intention of buying them in larger quantities (Elderud and Stark, 2012). They negotiated a license agreement of production and an agreement to deliver parts for the production in Soviet Union; all was delivered with open credit of 30 days and was always paid in time (Ibid.). According to Crister Stark, there was no fear that the Soviet machines could be exported back to Sweden or Europe because they were not competitive. After the collapse of the Soviet Union, the

business network and many formal institutions collapsed. This was a shocking event for the world, according to Crister Stark.

4.6 Väderstad's internationalization process

As early as in the eighties Väderstad predicted that possibly Russia would be an important future market for Väderstad. The need of good machines seemed infinite and the agricultural areal was vast (Elderud and Stark, 2012). While visiting the Soviet Republic of Russia, Crister Stark noticed the huge expanses of areal. He also studied the official statistic of areal, different soil types and the miserable yield of the Soviet agriculture. Väderstad recognized that one day this huge land needed to be modernized, although at the moment, the formal institutions, mainly political, restrained and prevented this development.

According to Crister Stark, the motivation to expand to both emerging and mature markets is driven by the opportunities that those markets represent. The purpose for the expansion to new markets is to get enough volume on each of the machine models to be able to finance the future development projects and continue to improve the agriculture in the world. The possibilities in Russia are enormous; if Väderstad could get the same market share in Russia as in Sweden then the company could grow rapidly (Ibid.). In comparison, Russia has 123,5 million hectare compared with Sweden 2,643 million (SCB, 2012). That is more than 47 times the Swedish agricultural area, but the turnover by markets are almost on the same level, according to Crister Stark. So the potential and opportunities of the Russian market are tempting (Ibid.).

According to Elderud and Stark (2012), Väderstad had formed a dynamic partnership with a Russian company called AgroCentr after year 2000. AgroCentr have an organization that works close to the customer and they import, promote and sell Väderstad products. AgroCentr had no representation in the south of Russia, so in 2007 Väderstad founded the Russian sales subsidiary LCC Vaderstad in Krasnodar.

The first production facility outside of Sweden was created 2010 when Väderstad founded a subsidiary organized under LCC Vaderstad. The subsidiary was called LCC Vaderstad Production and is located in Voronezh region in Russia (Elderud and Stark, 2012). According to the interview with Crister Stark, not all of Väderstads capabilities are present in LCC Vaderstad Production only assembling of machines.

According to Crister Stark, when Väderstad acquired Seed Hawk in 2013, they got their first fully owned production facility in another country that have all capabilities compared with Väderstad.

4.7 Väderstad's market entry strategy in Russia

Väderstad's expansion has been export driven and today 90% of all machines are exported. To expand and enter a new market has been the strategic decision made by the Board of Directors, and it has been successful so far in expanding the business, according to Crister Stark. Additionally, it is also important to choose the right strategy for the new market and do follow-ups on the targets set for better economic performance.

When Väderstad entered Russia, the company first tested the market with the help of the company AgroCentr, according to Crister Stark. AgroCentr were very good in promoting and selling the machines, and with their help Väderstad got experience in the performance of the modern machines in the Russian farming environment. When Väderstad wanted to expand further into the Russian market, the company decided not to compete with AgroCentr and they aimed for the part of Russia that was not covered by them (Ibid.).

According to Crister Stark, Väderstad also performs an analysis of the needs on the Russian market, and how much the investments in new machines can improve the agriculture yield for the farmer. As long as the income is stable, for instance, wheat prices and expenses such as pesticides and fertilizers, combined with a stable currency exchange rate, the farmers are willing to invest in new equipment.

According to Crister Stark, the selection of the strategy while entering Russia depended on several internal and external factors. An important external factor is the trade barriers and subsidized interest rates, and an important internal factor is the optimism and risk propensity of the management.

4.7.1 Väderstad's market entry barriers in Russia

According to Crister Stark, there are also barriers that need to be considered, for instance, transport cost is a huge cost for Väderstad since the machines are transported on trucks across Europe into Russia. To transport the goods from Väderstad to Russia, and to the production facility located in Voronezh region, can cost up to 75000 SEK, depending on the size of the machine, this cost needs to be distributed among the customers. It would have been less expensive to do direct transport to the farmers from Sweden, but since the subsidized interest rates create difficulties in competing with local companies, the usage of LCC Väderstad Production is a necessity.

Another entry barrier is the Russian customer itself, according to Crister Stark. The machines and the Väderstad way of farming shall also fit the local market; otherwise there is no point in trying. Russian farmers can be very conservative when it comes to farming methods and are not always willing to try new ways of conducting agriculture.

According to OECD (2013), there is a shortage of highly educated farmers and labour force and that limits the agricultural development. Crister Stark claims that the farmers were often taught in the Soviet Union how farming shall be conducted, how much fertilizer to use, and how many kilos of seeds per hectare to drill. A common method to prove that new methods can be profitable is to have demonstration fields with Väderstad way of farming, which the potential customer can visit and see for himself how productive the land and machines can be (Ibid.).

4.7.2 Internal factors that affect Väderstad's market entry strategy

There are also several internal factors that affect the market entry strategy in Russia. According to Crister Stark, Väderstad built knowledge of the market in Soviet Union already in the eighties. Together with AgroCentr the company created market knowledge of the more modern machines. Back in the Soviet Union the Russian farmer wanted simple and robust machines that seldom failed. The current machines can be delivered to Russia without the options that a more mature market might request, and all equipment shall be able to be used with a standardized tractor. Väderstad has also recruited Russian speaking personnel at the main office in Väderstad, focusing on customer support, spare part sales and technical support. With knowledge of the Russian market, the company has the capability to develop the appropriate machine options for that market, simple and robust (Ibid.).

4.7.3 External factors that affect Väderstad's market entry strategy in Russia

According to Crister Stark, the external factors that affect the entry strategy for Väderstad into the emerging market of Russia are complex. The growth and size of the Russian market affected the strategy chosen. Crister Stark explains that, due to geographical distances in Russia and its poor infrastructure, it is almost impossible to cover the whole market. According to OECD (2013), there are substantial shortcomings in transport and service infrastructure. According to Crister Stark, regionally in Russia one can get a good market penetration, however, to cover all the regions of the Russian Federation the company needs to grow excessively. Since AgroCentr covered some regions already, Väderstad decided to expand into new regions, since there is no use to compete with an already established company and their network of customers.

The first competitor of Väderstad from European Union to enter the Russian market with a production facility was the German competitor Amazone. According to the interview, Amazone was helpful to share some of their experiences gained with Crister even if they are competitors.

According to the interview with Crister Stark, legislation was also a major factor when Väderstad entered Russia. First, Väderstad was investigating to renovate an old factory

for their production facility, however, after a carefully conducted inspection of the facility, Väderstad recognized that basically a new factory was needed to meet the formal demands of the society.

According to the interview with Crister Stark, Russia had also shown political stability and fairly stable currency exchange rate which are important for the company when selling machines. Additionally, there were also trade barriers that needed to be considered as an external factor. Russia has subsidized interest rates for the Russian farmers that buy machines that are made in Russia (Ibid.). According to OECD (2013), the Agricultural policy of Russia has focused on increased production through budget support for investing and through border protection. OECD (2013) claims that Russia's average import bound tariff has been reduced from 10% to 7.8% in 2011, however, many regulatory barriers to investments and trade still exist.

4.7.4 Väderstad's market entry mode in Russia

Väderstad chooses to expand into the Russian market with three entry modes, direct export with the Russian sales subsidiary LCC Vaderstad, production with LCC Vaderstad Production and indirect export by AgroCentr.

According to Crister, the sales subsidiary in Russia is a separate financial unit that is responsible for its own income and expenses. This is a way to reduce the risk of the mother company and to limit the resources that are put into a new market. This also creates flexibility when it comes to management. The management of Väderstad did set up a target when entering the Russian market. Such goal was a profit margin of 2-3% and the sales subsidiary shall be self-sufficient when it comes to income and expenditures within one to two years. Market share is tracked continuously in the Russian market, but there is not an official goal stated by the company (Ibid.).

According to Crister Stark, the company has also developed their own "Best practice" when it comes to organizing a new sales subsidiary. This concept was implemented in Russia and it has also been successful within other emerging markets, however some adaptations have to be made towards the institutions on that market. The set-up of the staffing is similar between different emerging markets, but the weighting of the staff is adapted. The set-up of a sales subsidiary is one of the preferred methods together with independent importers while establishing in an emerging market (Ibid.).

4.8 Challenges according to the Chairman of the Board of Väderstad Group

In this chapter I will describe the challenges that the management of Väderstad have faced during their expansion to the Russian emerging market.

4.8.1 Formal and informal institutions

According to Crister Stark, the formal institutions in Russia can be very weak. The weakness in Russian property rights prevented Väderstad from doing direct investments in the production facility. The weakness in property rights led to the agreement with AgroCentr to lease a factory. According to Crister, one cannot trust the legal system because there can always be some forgotten law that can suddenly be implemented or arbitrariness in the implementation of the laws by local courts. The investment has been placed so far only in the production equipment that belongs to LCC Väderstad Production. The production equipment can be packed into trucks and transported away in order to be secured if needed. Further, the lack of knowledge of the formal legal demands for approval of such facility, if Väderstad wanted to proceed with the renovation instead of the partnership with AgroCentr, prevented the direct investments (Ibid.).

Crister Stark explains that the infrastructure can be very poor in emerging markets such as Russia. The roads leading to the end customer can be of very poor quality and, therefore, transport of machines can be difficult, sometimes the road is not classified for such heavy transport that is needed to deliver new machines. The industrial infrastructure such as service workshops, machine part dealers and other technical equipment dealers are also underdeveloped, compared to mature markets. With poor quality of local machine parts one becomes more dependent on the imported spare parts and this can lead to delays in repairs if one does not have enough spare parts in stock.

According to Crister Stark, homologation of the machines was not that challenging for Väderstad in the Russian market. If the machine has been granted the approval by the German or French authorities, then very likely it will pass the Russian approval process. Every year there are continuous inspections performed by the Russian officials in Väderstad to make sure that the machines are up to the Russian standard.

According to the interview with Crister, spare part export to Russia was partially challenging for Väderstad in the beginning. There often was some missing data on the drawings, and then the spare parts could get hold up in the customs until the proper updated drawings of the parts were presented.

According to Crister Stark, economic factors also have a significant impact on the foreign firm's entry to the Russian market as well. There are subsidized interest rates for

the Russian farmers if they buy machines that are “Made in Russia”. To be able to claim that the machines are made in Russia, Väderstad has to produce the machines in Sweden, ship them to LCC Vaderstad Production in Voronezh region in Russia and re-assemble them there. By doing so, the machines can be certified as “Made in Russia”. This certification is done by the authorities, but with the weak legal system one can never know if these rules change. According to Crister, there can be sudden changes but one cannot plan for such events. The legislation can be used against one. A scenario that Väderstad has thought of is the “Made in Russia” certification rules. A possible future change can be that a certain percentage of the machine parts must be sourced in Russia to avoid import taxes, however, at the moment Väderstad has no action plan in case of such event, even if it can be predicted due to the great uncertainties in the region and Russia’s policies. If something like this happens, Väderstad will in case of such emergency deal with it when it happens. According to Crister Stark, if there are changes that are too difficult to handle then Väderstad might be forced to leave Russia. The “Made in Russia” certification, done by the authorities, has certainly helped Väderstad when it comes to marketing and sales of the machines (Ibid.).

Recently there have been many changes in the formal institutions due to the political reasons in Russia. There is an armed conflict ongoing in eastern Ukraine (BBC news, 2015). The European countries and the USA have implemented sanctions against Russia and some parts of Ukraine due to this conflict. The sanctions are directed to both persons in the close proximity of the Russian government, to the financing of the six largest banks in Russia, and several Russian defense and energy companies (US department of state, 2014). The Russian answer to these sanctions has been directed to the European agricultural products (svt, 2014). Due to these sanctions combined with low oil prices the Russian ruble was crashing compared to the American dollar. In an attempt to defend the Ruble currency exchange rate, the Russian Central Bank raised interest rates (Forbes, 2015).

According to Crister Stark, the conflict zone in Ukraine is close to the regions where Väderstad is active in Russia, the sales subsidiary and production facility located in Krasnodar, cover the Rostov region that is next to the eastern Ukrainian conflict zone, and the Stavropol region, the region which is situated to the south of Rostov region. With these shocking uncertainties in the region, there is an even greater incentive to be restrictive in investments, agriculture can be seen as a strategic sector for the Russian nation. These events could not be foreseen by Väderstad, although they certainly affect the willingness to invest further and limit the exposed shareholder equity. These events add to the risk premium that the investment needs to by overcome before further investments, however, these black swans are hard to predict (Ibid.).

According to Crister Stark, the Russian Ruble currency crash is one major factor that affects the Russian farmer's willingness to invest in new equipment. Suddenly the currency is down 50% which means that the machine has increased 100% in local currency when converted from euro. Combine that with the increased interest rates for loans, a banking sector with the sanctions against the international financing of the Russian banks, a conflict in the nearby regions of Ukraine, and uncertainties in legislation that can be altered and changed abruptly, and as a result one has enormous uncertainties. At the moment one cannot trust the Russian legislation due to the political situation in the country and its political issues with the international community (Ibid.).

Additionally, import taxes can suddenly change to protect the local producers. Russia has implemented import taxes on tractors, trucks, brand cars and engines (Ministry of Commerce, People's Republic of China, 2010).

According to Crister Stark, there is a risk in investing in Russia since the local producing companies networks can be used against you. He explains that when John Deere built a factory for harvester, the local Russian government wanted them to produce the largest machines, however the John Deere Company decided to manufacture medium sized ones that are competing with the local producer of Rostselmach harvester. Suddenly the taxes on imported diesel engines in that range used for this type of machine were implemented. However, it is not possible to prove if these events are connected (Ibid.).

According to Crister Stark one has to adapt to the local emerging market, one needs to play according to the rules of the game. He claims that Väderstad is a company that is very adaptable to the new entry market conditions. There can be legislation that needs to be considered or networks that need to be built and used to conduct business, the complexity is higher in an emerging market compared with the European Union developed markets, for instance, one shall adapt to the institutions to meet the demands of the authorities and by doing so, and also using ones network and listening to their experience, one can use the institutions to one's competitive advantage (Ibid.).

4.8.2 Corruption

Crister Stark states that to avoid corruption in Russia, one shall not have any intermediates and one should go to the source of the business, because he or she cannot be corrupt because of his or her own wallet. There cannot even be "kickbacks" since he or she is already paying for it from his or her own wallet, the discounts of course can be given to speed up the business. If you have an intermediary, there is a great risk of corruption. For example, there can be a need to give special services or money to get attention and focus on selling one's products. By avoiding these issues and only work with one's own people or partners that one trusts, corruption can be avoided.

Crister Stark claims that corruption is a great problem for the Russian society and for the Russian farmers. How can the farmer prove how many tablets of pesticides were put into the sprayer? One paid for 10, 7 were used in the sprayer and 3 were embezzled on the way to the Russian farmer and there is no way to prove it, the same goes for seeds or fertilizers. The Russian farmers suffer from a low financial performance. The corruption adds to the low yield of the Russian farming and it is a great problem when it comes to securing the income streams for the agricultural companies. With a corrupt system it gets more difficult to do the pay-off calculations in machine investments. The society also suffers since the agricultural companies cannot perform to its optimal performance and thereby an increase in tax revenues.

According to Crister Stark, the fear of corruption also prevents from direct investments in Russia. Since the factory that was originally planned to be owned by Väderstad, was in such great need of renovation, so that there was an evident risk of corruption. To receive the permits cleared and all renovation approved by the authorities, it would be a great challenge to Väderstad's policy of no bribes. Crister notices that larger Swedish companies like IKEA have also encountered problems when establishing themselves in Russia.

According to Crister Stark, Väderstad is the only company that he has heard of that has received an official "Made in Russia" certification without paying any bribes to the Russian authorities. As far as he knows, there has been no foul play while receiving this certificate. However, it was challenging and the local Russian management and their network was the key to the success in these matters. As far as Crister Stark knows, Väderstad has never paid any bribes to the local officials or criminal organizations, this might be because of the relatively small scale of the operation and the lack of direct investments in Russia, in this way it might be easier to avoid corrupt officials, Crister speculates.

4.8.3 Corporate social responsibility

Väderstad vision is to become a global supplier benefiting farmers, co-workers, society and owners (Väderstad 4, 2015). Crister Stark explains that there is a thought behind the orders of those words. In the vision, society comes before the owner in that sense that the company needs to navigate and contribute to the society and that can sometime be difficult.

In Russia, there can be some requests for the foreign firm by the local authorities, however, they are not public and not open for review by other institutions in the society. An illustration of this can be that the local police have no money for gasoline for their cars and then you can contribute with filling up the gas tanks, however, there can be a thin line between corruption and sponsoring. Among other requests from the Russian

authorities can be, for instance, the improvement of some other public asset. With a strong network in the local Russian society one can avoid risk of corruption (Ibid.).

According to Crister Stark, in the mature market in Canada, where the Seed Hawk factory is located, there was a formal request from the local government if Väderstad can partially sponsor a new road in a nearby village with 50000 dollars. In contrary to the Russian situation, these requests are public and can be reviewed by the general public and the newspapers.

It is important for Väderstad to contribute to the local Russian society, and the state officials in Russia can demonstrate to the voters and to the society what Väderstad and indirectly the local government do for them. In both emerging markets and developed markets, this is included to the rule of the game when a company hit a certain size (Ibid.).

4.8.4 Networking and Trust

“Always invite the mayor” Crister Stark stated, and that goes for both mature and emerging markets. By doing so, it makes the interaction with the Russian authorities smoother. The Russian officials, like the mayor of the city, appreciate to be invited to social events, such as opening ceremony of the new factory, customer events and investor dinners.

According to Crister Stark, a good network was essential for business already in the Soviet Union and it is even more important today during these uncertain times in Russia. Väderstad has always tried to build networks both in the Russian society and in the Russian farming community. The partnership with the farming companies shall be for life, Crister explained. Networks are not static and can change over time, like when the Soviet Union collapsed, the network seized to exist.

Trust in the local management is vital, one must have people that one can trust 100 %, Crister explains. The managing director of the Russian sales subsidiary is trustworthy and honorable. The Russian employees often show a great loyalty to the company due to the decent salaries, the stability and the status that a foreign owned company offers compared to domestic Russian companies. The Russian employees have been given the opportunity to visit Sweden and see the Väderstad production and organization (Ibid.).

Crister Stark persists that by building trust in one’s organization one can improve the result, and by showing the local Russian management that they are trusted, independent and responsible for their own result, the work efficiency will be high. It is vital to find the right personnel with good competence for one’s business in Russia due to the cultural distance between the foreign company and the local company (Ibid.).

According to Crister Stark, there is a greater challenge when it comes to trust in getting paid from the local Russian farming companies. The Russian sales subsidiary has to secure payment before delivery; this is to reduce the risk of theft, embezzlement or defaulting credits or the weakness in the Russian legal system in claiming the payment. The Russian courts cannot be trusted when it comes to conflict resolution. With internationally owned farming companies active in Russia, Väderstad can give open credit like in developed markets with 30-90 days payment to those firms the company has long relation with and with those ones that can be trusted (Ibid.).

The interview with Crister Stark demonstrates that Väderstad also has a good network with their competitor's management, they are on friendly terms with each other even if they are competitors. They visit each other's factories and are fairly open with information and experience when it comes to emerging markets like Russia. According to Crister Stark, this network can be of great use when dealing with the institutions that you encounter when you enter a new market.

5 Analysis

This section of the thesis incorporates the case and the empirical observations and interprets and analyzes the findings. Väderstad's internationalization process, foreign market entry strategy, as well as the company's experience of Russia's institutional environment and the challenges it contains are presented in this section. The findings from the interview with the Chairman of the Board of Väderstad Group are included and support the analysis.

5.1 Uppsala model, institutions and emerging markets

When Väderstad entered the Russian market, the empirical evidence demonstrates that the stages taken for this internationalization process were conducted in accordance to Johanson and Vahlne (1977). The second step, according to Johanson and Vahlne (1977) was selling by agent. The author of this thesis states that this second step is presented by the cooperation between Väderstad and the Russian company AgroCentr. The third step, described by Johanson and Vahlne, is sales subsidiary. The empirical evidence shows that Väderstad took the third step when the company created LCC Vaderstad in 2007. The fourth step, in accordance to Johanson and Vahlne (1977), is the creation of a production subsidiary. Väderstad took the fourth step when they created the company LCC Vaderstad Production in 2010. The author of this thesis claims that the steps, taken by Väderstad in accordance with Johanson and Vahlne's (1977) theory, were initiated due to the institutional influence, not because it was the "next step" to perform in the internationalization process. The best step taken was not necessarily the fourth one, since the institutions' ineffectiveness forced Väderstad to do so. The institutions and the possibility of changes in the institutions can affect the willingness to invest, according to the author of this thesis, due to the connection between institutions and the internationalization process. The author of this thesis thereby finds that the theories by Johanson and Vahlne (1977) are strengthened by the case company and that institutions matter when the model is applied.

Johanson and Vahlne updated their model in 1990 and they offered a more dynamic model of internationalization, where they applied the network perspective to the internationalization process. In the updated model, Johanson and Vahlne (1990) claimed that a company prefers to expand to markets with similar market environment. The empirical evidence presented in this thesis shows weak support for that statement by Johanson and Vahlne due to the Russian focus of the paper, however, if to look into the market presence of Väderstad, there is some support for their statements. In figure 2, Väderstads turnover by market, in chapter 4.4.3, the top 6 markets are Russia, Sweden, Great Britain, Germany, France and Denmark. Those markets are similar to Sweden

since they belong to the European Union, except Russia. In the 1990 updated model, Johanson and Vahlne claimed that market knowledge and commitment influence business decisions and, with understanding of the culture and market environment, the entrance to the new market is more successful. The similarities also work in the other direction, according to the author of this thesis, if a market has similar legislation and opportunities, then competitors will move into a company's home market. Such market can be represented by Sweden where the main German competitors are available on the market. Therefore, the competition is stronger, and, therefore, it is not necessary that a company prefers to expand to a market with similar market environment, due to higher competitiveness. It can be easier to explore the capabilities of the company on an emerging market. The empirical evidence demonstrates that networking is a vital factor when it comes to creating market knowledge. While using networking, the company can build trust, receive experience about the performance of the products and if the machines are successful on the market, the rumors will spread that with Väderstad machines the yield will increase.

In accordance with Johanson and Vahlne's (2009) updated internationalization model, Väderstad confirms to the principle that the internationalization process depends on a firm's relationship and network. They argue that the international market is often unknown by the expanding company, and, therefore, creates difficulties for it. The foreign company needs to participate in relevant networks and obtain experience from others. The empirical data demonstrates that while expanding to Russia, the company used a Russian importer AgroCentr as a partner to gain experience of the market and the performance of the machines used in the Russian farming conditions. They also used the network to reduce the risk when establishing LCC Vaderstad Production. The interview with Crister Stark demonstrates that Väderstad preferred not to compete with the partner AgroCentr and focused their efforts to regions that AgroCentr did not cover. According to the author of this thesis, this was probably in Väderstads own interest to keep the good network and to gain new market shares. The company built trust and loyalty within their Russian network, in accordance with Johanson and Vahlne (2009).

Johanson and Vahlne (2009), claim that there are state variables (knowledge, opportunities and network position) and change variables (relationship, commitment, decision and learning, creating and trust building). The empirical evidence presented in this paper demonstrates the presence of these variables in the company's activities. The company used their networks positions in the southern Russia while building knowledge of the market. The Russian partner AgroCentr and Väderstad built trust in relations between the companies and arranged that AgroCentr would buy a factory in Russia that Väderstad could rent from them. This displays considerable trust between the management of Väderstad and the Russian partner. Networks are an important factor

when it comes to internationalization, but networks are not static and can be altered overnight. The collapse of the Soviet Union demonstrates that with a collapse of the institutional context, an established network suddenly disappeared as well.

5.2 Foreign market entry strategy

Hollensen (1998) states that international market entry strategies are the main strategic instrument for companies that plan to expand to international markets. The empirical evidence demonstrates that the strategic decision to expand to a new market, such as Russia, is made by the Board of Directors of Väderstad. The Board of Directors also determines the objectives of the market entry, such objectives could be goals for profit margin and when the new market is going to be profitable. The interview with Crister Stark demonstrates that the target for the Russian market entry was a profit margin of 2-3% and the LCC Väderstad needed to be self-sufficient when it comes to income and expenditures within a year. By doing so, Väderstad can improve their economic performance, according to Crister Stark. Crister Stark's statements support the statements by Root (1994) that such objectives assist the profitability of a company and the development of the entry strategy.

The empirical evidence finds support for Deresky's (2000) statements that environmental factors and risks should be taken into account while developing strategies to enter a new market. To manage risk while entering the Russian market, the interview demonstrates that Väderstad used their network to reduce the risk and cooperated with the Russian company AgroCentr. The environmental factor such as infrastructure was also decisive in the decision not to compete with AgroCentr. According to the author of this thesis, the poor infrastructure can be seen as market dividers, and, therefore, Väderstad can be separated from AgroCentr even if they are present in Russia at the same time. The author of this thesis claims that the interview demonstrates that a company is willing to take moderate risks when it comes to shareholders' capital, however the optimism of the management is a force that is essential when it comes to growth in Russia and other emerging markets.

5.2.1 Foreign market entry mode

According to Koch (2001), choosing an entry mode for a new market is an essential decision for a company. In accordance with this, the empirical evidence displays that Väderstad had chosen three entry modes when entering Russia. The interview demonstrates that indirect export with intermediaries, direct export without intermediaries and production subsidiary was the chosen entry modes while entering Russia. According to Hollensen (1998), if a company chooses an unsuitable entry mode in the beginning of the internationalization process, it can threaten the future expansion.

The author of this thesis claims that Väderstad chooses the selected market entry mode not to threaten the current market share created by AgroCentr. If the company would have come on to the wrong terms with AgroCentr, it could have threatened the growth of Väderstad in the regions where AgroCentr is represented.

Koch (2001) claims that there are several factors that affect the entry mode. Such factors are market entry barriers, transport cost, characteristics of the country business environment, profit targets, competences, capabilities of entrants and resources of entrants and others. The empirical evidence manifests that Väderstad considered several of them. According to the author of this thesis, there were certain trade barriers, and the “Made in Russia” certification can be seen as one. The “Made in Russia” certification was the key for Väderstad’s customers to access the low interest rates subsidized by the Russian government. The policies and legislation surrounding this certification process can also be affected by changes in the future. This would be seen as a shocking implication on the investments and the company’s strategy selected by Väderstad, and the interview confirms that Väderstad anticipated that such events could happen. The company also took the characteristics of the country business environment into consideration, the weak property rights in this case. The weakness of the property rights compelled Väderstad to use a careful approach when it came to direct investments and that means, in accordance with OECDs conclusions, that Russia’s weak property rights is negative for the growth. The constant changes in legislation and the poor rule of law described by OECD (2002a) can be seen as institutional shocks, according to the author of this thesis.

According to Johanson and Vahlne (1977) and Hollensen (1998), an entering company can divide the factors affecting the entry mode to external and internal ones. In accordance with the theories presented by Johanson and Vahlne (1977), Hollensen (1998) and Koch (2001), the empirical evidence presents that the several internal factors affected the entry mode of Väderstad into Russia. The company used their network to get the knowledge of the Russian market; for instance, they had the resources such as the Russian speaking employees. The products fit the local market, and the management was determined to expand there, since they had the experiences from the Soviet Russia. Väderstad also took the external factors into consideration. According to the interview with Crister Stark, the laws had a great impact in choosing entry mode due to weak property rights and difficulties to handle the weak institutions. The infrastructure is poor in Russia and that limits the area covered by the sales subsidiary.

According to Driscoll (1995), the entering company should consider situational influences such as firm factors, environmental factors, and moderating factors when choosing entry mode. The entering company shall evaluate firstly two situational

factors, and secondly the possible moderating factors. The empirical evidence also shows that such evaluation was performed by Väderstad prior to the Russian entry. According to the author of this thesis, Väderstad utilized their experience from the Soviet Union as a firm factor, the demand of their products and the improvement of the agriculture of Russia can be considered to be an environmental factor, and, finally, the governmental regulations are considered to be a moderating factor. The empirical evidence displays that these factors were taken in to consideration when choosing an entry mode, and, therefore, this study confirms to Johanson and Vahlne's (1977), Koch's (2012), Driscoll's (1995), and Hollensen's (1998) statements.

5.3 The institutional environment and its challenges

5.3.1 Formal institutions

Crister Stark claims that one needs to play according to “the rules of the game” of the institutions when entering a new emerging market such as Russia, in accordance with North (1990: 3).

Hotho and Pedersen (2012) claim that firms prefer to enter through wholly owned subsidiaries in host countries with well-functioning institutions than in less developed countries with less developed institutional framework. I find this partially true through the empirical evidence due to Väderstad's willingness to use sales subsidiaries independent of the institutional environment. According to Crister, this is due to the optimism and the risk propensity of the management of the company.

The institutional context of the market is shaped by the countries' institutions and they influence the actors there and “*an institution-based view of strategy focuses on the dynamic interaction between institutions and organizations, and considers strategic choices as the outcome of such an interaction*” (Peng et al., 2008: 922). According to the interview, one has to have knowledge of the market, and there can be certain rules and laws that one needs to take into consideration before entering a certain market. The interview demonstrates that such dynamic interaction between institutions and organizations exists and it affects the strategy. When entering the Russian market, Väderstad considered the political and economic system of Russia and the institutional context of both formal institutions, such as legislation and property rights, and informal ones such as networks and corruption.

According to Hotho and Pedersen (2012), rules and regulations influence the economic productivity. The interview demonstrates that the regulations of Russia forced Väderstad to implement a less cost efficient entry mode to increase the sales within Russia. According to the author of this thesis, the Russian institutions forced Väderstad

to invest in the production facility to get access to subsidized interest rates, and by doing so, the company is more exposed to changes in the institutional context compared with just a sales subsidiary.

The institutions can assist in developing strategies if the firms are able to adapt to the institutional constraints (Hoskisson et al., 2000). Xu and Meyer (2013) state that incorporating the institutional context to the strategy can either restrain or encourage the business. North (1990) claims that companies, which expand into emerging economies, should realize that it is necessary to adapt to changes on these markets to succeed. The empirical evidence shows that such institutional context can encourage the business. The “Made in Russia” certificate that the Russian authorities issued to Väderstad, has certainly helped with the growth of the company, according to the interview. With the knowledge of the institutions of the country, Väderstad could adapt their strategy and use the institutions to their advantage.

In accordance to the statements by Bowen and De Clercq (2008), the interview demonstrates that in Russia the weakness of the formal institutions prevented Väderstad to do direct investments and they were forced to use a partnership instead of handle the institutions and the legislation surrounding property rights. According to OECD (2013), Russia needs to improve the formal institutions to boost investors’ confidence. According to the interview, Väderstad does not trust the legal system and laws can suddenly be implemented or changed. According to OECD (2002a), the foreign investors are often shocked when it comes to unforeseen changes in legislation and poor rule of law. Väderstad also foresees a possible future change in policies when it comes to the “Made in Russia” certification, but the company does not count on such event.

5.3.2 Property rights

According to Maryin-Ostrovskiy (2008), property rights are all standards that regulate access to a resource, and, according to OECD (2002), the protection of property rights requires a strong legal framework and enforcement. Maryin-Ostrovskiy (2008) claims that there is an absence of well-specified and protected property rights in Russia and OECD (2002) strengthens this statement that by saying Russian institutions have great shortcomings when it comes to law enforcement. This is confirmed with the interview with Crister Stark, the shortcomings in property rights prevented the direct investments in Russia. The fear of the corrupt authorities in the approval process and the fear of not getting control of the property were substantial.

The interaction between the players of the game are based on the “white”, “grey” or “black” schemes. Through these strategies the authorities and the business aim to realize their particular interest in property rights (Ibid). The empirical evidence collected by the author in this thesis displays that such schemes exist also in other areas when it comes

to interaction with the formal institutions. The “black” scheme is the interaction only within the informal institutions, sometimes even breaking the law, according to Maryin-Ostrovskiy (2008). Väderstad has not been working within these so called “black schemes”, according to Crister Stark. The company has actively avoided using any intermediates in their business. Väderstad feared that they would have to use the “black” scheme if they wanted to purchase and renovate the factory first in mind for the assembly factory in Russia; therefore there were no direct investments in property.

The “grey” scheme is when the formal institutions are used informally, according to Maryin-Ostrovskiy (2008). The interview demonstrates that if you “*always invite the mayor*” and, thus, the informal institutions such as networks, can be to your advantage, when dealing with the formal institutions of Russia. In accordance with Maryin-Ostrovskiy (2008), the empirical evidence demonstrates that such interaction took place when Väderstad got the official “Made in Russia” certification. There was no foul play, according to Crister Stark, and the local management was the key to this success and they used their network to gain success. There is nothing illegal going on, however, it is the most widespread type of interaction where formal institutions are used informally, and Väderstad confirms Maryin-Ostrovskiy’s (2008) statements of the grey schemes. The “white” scheme is correspondingly built on the interaction with the formal institutions within the legislation.

Maryin-Ostrovskiy (2008) also claims that the local authorities, to keep their power in property rights and to realize their own interests, use companies and their corporate social responsibilities. Väderstad confirms that such events happened in Russia, e.g. Väderstad had to fill up the gas tanks for the local police cars. Väderstad claims for the mature markets, that the corporate social responsibility is more connected to the politician’s willingness to show that their politics matters for the society.

5.3.3 Informal institutions and institutional voids

According to Meyer (2001), emerging markets differ from developed ones. Khanna and Palepu (2010) identify one important difference between them which is presented in the configurations of institutions that govern them. Institutional voids or “soft” infrastructure can prevent a company from acquiring reliable market information (Khanna and Palepu, 1997, 2010). Companies should develop the capabilities to distinguish institutional voids to achieve success in a market, according to Khanna and Palepu (2010). The empirical evidence from Vinogradova (2012, my translation) displays that these voids lead to a system of inefficient institutions in Russia. These inefficient institutions are the result of the ineffective property rights, imperfections in institutional mechanisms and attenuation in institutional environment (Ibid).

Companies shall develop their capabilities to identify these voids and it is not possible to act without considering these voids in emerging economies, according to Khanna and Palepu (2000). The problem is that companies stick to standardized approaches when entering new emerging markets, sometimes with a local twist (Ibid). In accordance with this statement, Väderstad has developed a “best practice” for entering a new emerging market, with a fully owned sales subsidiary. According to Crister Stark, they add the local twist according to the institutional context, such twist can be that they need more administrative personnel to handle the formal institutions. The interview also demonstrates that due to the institutional voids, the lack of knowledge of the formal and informal institutions, with accordance to Khanna and Palepu (1997, 2010), Väderstad was unable to do direct investments.

5.3.4 Corruption

The empirical data shows that corruption exists in Russia. According to Radygin and Antov (2008), corruption is one of the characteristics of the institutional environment in Russia. They claim that corruption is systematic in the institutional environment. Väderstad has not been involved in corrupt activities, according to Crister Stark’s knowledge, they have been successful in avoiding such matters due to the lack of direct investments, and the strategy to go to the source of the business since he or she cannot be corrupt. Crister claims that corruption is a greater problem for the society and the farmers since the corruption affects the economic performance of Väderstads customers. With corruption, the pay-off calculations of the machine investments become more difficult. Society also suffers from less tax revenues. Therefore, Väderstad confirms to the statement of Radygin and Antov that corruption is systematic. Väderstad also feared that they would have to use the “black” scheme if they wanted to purchase and renovate the factory first in mind for the assembly factory in Russia; therefore, there were no direct investments. This empirical evidence displays that corruption is a serious problem for the Russian society and business.

5.3.5 Networking and trust

According to Peng (2000), networks can be used as a mechanism to overcome deficiencies in institutional structures. Meyer (2001) claims that if the institutions do not function that well, the network can solve certain issues. Ahlstrom and Burton (2006), state that it is difficult to find skilled personnel with good competences in a new country. In accordance with this, Väderstad confirms that one needs to have local management that you can trust to 100%. The management in Russia is trustworthy and honorable, according to Crister Stark. The interview displays that it is very important to find the right personnel with the right competence and it confirms the statements done by Ahlstrom and Burton (2006).

In accordance with Ahlstrom and Burton's statement that the network can help one to avoid negative issues with deficiencies of formal institutions, Väderstad used their network to establish the assembly factory in Russia. The Russian company AgroCentr invested in a new factory that Väderstad could rent from them and that shows a great deal of trust between the firms and it is in accordance with Kharchilava (2009) that claims that without trust there are no investments and the country's economy can slow down. The empirical evidence by Kharchilava (2009) demonstrates that trust as an informal institution can reduce the level of uncertainty. Väderstad has always tried to build a network in the political arena in Russia, it can make the interaction with the Russian authorities smoother and that confirms to the statements of Ahlstrom and Burton (2006).

Puffer, McCarthy, Boisot (2010) present the empirical evidence that the Russian society is characterized by low trust with formal rules and the enforcement of the rules can be incomplete and that contributes to the uncertainty in Russia. Väderstad also lacks trust in the Russian formal institutions, according to the interview. Crister claims that one cannot trust the legal system because there might be a forgotten law that is suddenly implemented. The author of this thesis claims that such sudden implementation of a law long forgotten can be seen as a shock to the foreign investors.

Kharchilava (2009) concludes that making formal contracts, and addressing the courts in case of breaking the agreement are inefficient in Russia. Väderstad acts according to this and, according to Crister Stark, the sales company needs to secure payment before delivery. This is due to lack of trust in the legal system in claiming the payments. Among western international firms that are present in the Russian market there can be a greater deal of trust, especially if they have been successful in business before and, thus, open credit can be used.

The thesis demonstrates that in the institutional environment networks matter and networks are based on trust. Additionally, there are certain national peculiarities in the Russian market for instance, a distrust of those who does not belong to one's network and this influences the barriers of the market actors. Another peculiarity is a special type of CSR. In conclusion, the institutional environment of emerging markets is country-specific, and that is why it is necessary to learn about it before entering a host country and take it into consideration.

6 Discussion and conclusions

6.1 Discussion

The purpose of this thesis is to investigate and analyze how a foreign company is affected by a host country's institutional context when entering an emerging market and the research question is in what way the institutional context of an emerging market affects the entering firms' strategies.

This study has a focus on the institution-based perspective and proves the importance of this perspective. It should be noted that this perspective is not sufficient by itself and other perspectives and experiences from other markets influence firms' strategic decisions during the market entry process. Resource-based, transaction cost based and industry-based factors interplay with the institutional context.

It is necessary for foreign entrants to learn the market characteristics before entering there. Väderstad used previous experience from the Soviet Union and the recent statistics to build market knowledge of Russia. Understanding of the institutional environment and the corresponding costs and challenges make possible to make a weighted decision whether or not the market potential justifies market entry, or whether other countries tend to be more attractive due to less challenging institutional environment.

In general, the Russian emerging market represents many challenges for the new foreign entrants, mainly because of its formal and informal institutions and their "rules of the game" in the market. The companies that recognize the importance of the institutional environment and learn more about the institutions of a host country before entering a new market have more chances to succeed there; especially it is relevant for emerging markets.

One cannot completely rely on the formal institutions in Russia due to the better functioning of the informal ones. Foreign firms may combine the usage of both formal and informal institutions in business activities depending on the situation. Of course, it is possible not to engage into activities with informal institutions, such as networks, and work only with formal institutions, however, it may influence a foreign company's success on a certain market.

In emerging countries the void of formal institutions is filled by informal institutions. That is why networks are important in conducting business activities. The fragmented legislation in the formal institutions in the area of property, for instance, causes foreign companies to rely on the informal institutions like networking. Foreign firms rely much on using personal networks to perform on the emerging markets. It is necessary to build

networks with government officials, partners and other market actors to succeed in business activities. Network connections play a significant role in assisting companies to perform in the turbulent environments of the emerging markets. Currently, it is necessary for foreign companies in Russia to work with both the formal and the informal institutions, since the formal ones are not properly functioning. However, when formal institutions change and develop, the informal ones will not have to substitute for them.

6.2 Research findings

In this thesis I would like to contribute to the development of the institutional theory and institutional shocks that can be encountered in emerging markets such as Russia.

This thesis finds empirical evidence that Väderstad took the steps in accordance to Johanson and Vahlne's (1977) model due to institutional influences. This study confirms with the researches by Wright et al. (2005), Scott (1995), Xu and Meyer (2013), Filatotchev et al. (2007, 2008) and concludes that institutions are a force that influences the decisions and actions of organizations. This study supports the findings by several researches (Peng et al., 2009, Wright et al., 2005, Meyer et al., 2009, Hoskisson et al., 2000) that institutional context affects the strategy in emerging markets. This thesis finds support for Peng's et al. (2009) theory that institution-based view is "third leg of the strategy tripod". The study demonstrates that institutional context requires different strategy adaptations from the entrant company, and, therefore, entry strategy research should always include the institutional context, especially in emerging economies.

The author of this thesis demonstrates that the institutional context plays a significant role in companies' final strategic decisions. The political, economic and social environment affected the internationalization process and the formal institutions forced the company to adapt its entry mode due to the weakness in property rights legislation, fear of corruption and economic reasons. The company's network also affected the entry mode.

The empirical findings suggest that institutional shocks influence the willingness to invest in emerging markets such as Russia. Institutional shocks are briefly described by Tihanyi, Devinney and Pedersen (2012) as a possible future research focus for international business scholars. Institutional shocks are described as unpredictable rule emergence in the institutional context (Ibid.).

The shocks can be represented by changes in the formal and informal institutions and they are difficult to detect in advance. These shocks can be both positive and negative for the company and have both positive and negative implications for the company's

possibilities to act in emerging markets. Even if there is some political stability, and the company has a well-established network, there can be sudden changes that jeopardize the business. North (1990:6) claimed that it is possible that the institutions change overnight due to political or judicial decisions. The empirical evidence demonstrates that such events have happened in history and continue to happen today.

The collapse of the Soviet Union and the associated collapse of both Väderstad's networks and some of the formal institutions opened up new possibilities for the company. This can be considered as an institutional shock.

The more recent events as the conflict in Ukraine and the international sanctions against Russia and some parts of Ukraine can be seen as political events that have great impact on the companies that are active in those emerging markets. Institutional theory concentrates on the issues on how political, social and economic systems in the environment where companies are active influence these companies' actions (Wright et al., 2005). Therefore, since these decisions of sanctions and conflict are political, the author of this thesis finds them institutional. In accordance with these statements, the empirical evidence of the interview with Crister Stark demonstrates that these institutional changes affect the company profoundly. The conflict zone is in close proximity of the area where the company is active, combined with the macro economic effects as the Ruble crash and the increased interest rates, and the international sanctions in the financing system of the Russian banks, all of these factors lead to the decline of Väderstad's sales in Russia. According to Crister Stark, these events could not have been foreseen by the management of the company. These events that I would like to refer to as institutional shocks, the empirical evidence demonstrates that these shocks affect the willingness to invest in the emerging markets. Such dramatic events should be taken into consideration and the risk premium is increasing and, therefore, it affects the willingness to invest in such markets.

6.3 Theoretical and practical implications

This thesis goes together with the steps of the updated Uppsala model from Johanson and Vahlne's (2009) study and networks and relationships matter when a company expands into emerging markets. Institutions affect the steps taken in the Uppsala model and institutions can affect the economic performance of the entry firm. The thesis demonstrates that institutions have a significant role in emerging markets and institutions affect the strategic decisions of the entrant company.

The case company demonstrates that managers should take the networks into consideration when choosing entry mode. Managers need to consider not only the market potential, but also the institutional environment of a foreign country.

Underestimating the institutional environment can be costly and the risk of institutional shocks and the knowledge that such events may occur can also affect the managerial decisions of a company and the willingness to invest in an emerging market. Managers should actively evaluate and study the institutional context of potential countries to expand, especially in the case of emerging markets. Such activities can protect companies from making an incorrect decision about entry on a certain market. Additionally, managers should consider that foreign market entry is more unstable and it can take longer time to succeed and to receive profit, however, a balanced, decisive and flexible entry may assist in reducing the risk with weak institutions. Also, managers should note that the institutional context does not only consist of the “rules of the game” or formal institutions. It also consists of invisible or informal factors such as culture, corruption, networking and others, in other words, informal institutions. Informal institutions can be critical in developing business activities and can affect the behavior of market actors. Managers should consider strengthening the business culture in the subsidiary company to avoid the negative effect of the informal institution such as corruption. If a manager decides to enter an emerging market such as Russia, he or she needs to learn how to act in such market.

6.4 Conclusions

The empirical evidence suggests that the institutional environment of a host country affects the sequential steps taken in accordance with the Uppsala model. The case company followed these steps of the Uppsala model when entering Russia. The risk of corruption, weak property rights legislation, political and economic factors, combined with networking were included into the institutional environment that the company encountered in Russia.

This study has demonstrated that there is an institutional void in the Russian market like in other emerging economies, since efficient formal institutions are not fully developed. The property institutions are not properly functioning, and formal institutions which protect property are incomplete. Thus, there is a need of creating better functioning legislation to protect property. The developed countries firms can rely on the state and legal protection of property rights in their home countries, and this is not always the case when they expand to the emerging markets. In Russia, the property rights are not fully protected and the property laws need to be reinforced. Thus, foreign firms have to rely much on informal institutions. To sum up, institutions play a significant role for foreign firms’ strategies development in emerging markets, both formal and informal.

The thesis concludes that networks matters and network is based on trust. Networks can protect firms from government interference into business and substitute for weaker

formal institutions. Due to the weaknesses of formal institutions, informal institutions can provide a kind of a substitute for the institutional void. In conclusion, companies should take the institutional context of the host country into consideration while entering an emerging market, and to alter their entry strategies if necessary. The findings demonstrate that institutions cannot be neglected when researching foreign market entry strategies, thus, a multi-theoretical approach is needed.

This thesis indicates that there are certain “institutional shocks” that influence the willingness to invest in an emerging market such as Russia. Institutional shocks increase the uncertainty and the risk, and reduce the stability for the market entrants. Additionally, they negatively influence the investments. These shocks cannot be detected in advance, however, the firms need to take them in consideration and they need to be flexible in altering their strategies when such events occur.

6.5 Future research

There is a need to investigate how the institutions affect the Uppsala model and how the sequential steps are affected by the institutions. Additionally, future research should strive to implement multi-theoretical perspectives, where different approaches such as transaction cost and resource-based theories applied to entry strategies, are included equally. This study demonstrates that different theoretical perspectives should be integrated in the future research and the interplay between them should be studied further to be more applicable to firms’ needs.

Future research is needed to confirm that institutional shocks exist and how the phenomenon affects the willingness to invest. The future research can also expand to other emerging markets than Russia and address more participating companies to confirm that the institutional shocks are a factor to be considered in international business and how the knowledge of such shocks affects managers that are planning to invest in Russia and in other emerging markets.

6.6 Criticism of the thesis

There are other factors than institutions that affect the market entry strategy such as resource-based view and transaction cost theory, there might be a need to do a deeper analysis of the other theories that affect the firm internationalization. When focusing on one or a few theoretical approaches, it is necessary to be aware of other perspectives to reduce misinterpretation of the empirical data.

The thesis focuses on the institutions of Russia and analyzes only one case company, and, therefore, there is a future need to analyze more foreign companies acting in other markets to strengthen the conclusions. This study is limited to a case study of

Väderstad-Verken AB that is present in the agricultural branch. The agricultural sector is often regulated and subsidized and, therefore, it might be more affected by changes in the institutions compared with other sectors and businesses.

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Interview

Crister Stark (2015), Chairman of the Board of directors. Väderstad 2015-03-15

8 Appendix

Vilka var de största skillnaderna mellan en ”mogen” marknad och en ”framtida tillväxtmarknad ”som sovjet om man tänker historiskt under 70- och 80 talet?

Var det svårt att ta det strategiska beslutet att tillåta licenstillverkning av vältar?

Vilka faktorer var mest beivrande med licensavtalet? Risk att inte få betalt? Tillit att de inte skulle kopiera och konkurrera?

Ni skrev att jordbruksattachén tog kontakt med er och att även Ambassadören Boris Pankin besökte er flera gånger, hur viktigt var detta nätverket för att minska riskerna och våga ta steget?

Tog ni med dessa institutionella erfarenheter (ekonomiska, sociala, politiska, legala) när ni lade upp strategin för att expandera in i östeuropa runt år 2002?

På sidan 57 i Väderstadboken skriver ni ”Kanske kommer en dag då Ryssland blir en viktig marknad för Väderstads redskap”, när började ni se den enorma potentialen som låg öster ut?

Svenskt jordbruk genomgick en ”eländig tid vid 90-talets början”. Vad berodde det på? Var det politiska beslut? Valutakris? Var det EU medlemskapet som förbättrade framtidsutsikterna?

Detta sammanföll med Sovjets kollaps, hur påverkade det företaget? Fick ni betalt? Kunde ni behålla det nätverk av kontakter som ni byggt upp?

Skulle man kunna kalla detta (sovjets kollaps och Sveriges regelförändringar) för en institutionell shock?

Jag läste att det första dotterbolaget var Engelskt och bildades 1992. England får väl anses vara en mogen marknad. Ni nämner att strategin för etablering utomlands handlade inte om administration eller juridik utan liknade en gerillastrategi som fokuserar på slutanvändarna. Är det möjligt att tänka liknande kring etablering på en tillväxtmarknad där institutionerna ser mycket annorlunda ut?

Måste man anpassa strategin till tillväxtmarknaden mer pga. svag lagstiftning, korruption, nätverksbyggande?

Dotterbolagens framväxt måste ha varit avgörande för den internationella expansionen?

Hur länge hade ni exporterat till dessa länder för att bygga marknadskännedom innan ni bildade dotterbolagen eller var det en chansning?

Vilka legala utmaningar har varit svårast att överkomma när ni expanderade öster ut?

Vilka ekonomiska utmaningar har varit svårast att överkomma när ni expanderade öster ut?

Vilka politiska utmaningar har varit svårast att överkomma när ni expanderade öster ut?

Vilka sociala utmaningar har varit svårast att överkomma när ni expanderade öster ut?

Hur viktigt tycker du att förståelsen om den nya marknadens kultur och marknadsmiljö är för att lyckas med en etablering på en tillväxtmarknad?

När ni bildade dotterolaget i Ukraina så var det strax efter den orangea revolutionen, hur påverkade dessa omvälvningar er vilja att starta bolag där?

Skulle man kunna kalla detta (revolutionen) för en institutionell chock?

Ni nämner att det var en administrativ mardröm att etablera sig i Ukraina, kan du ge några bra exempel?

Det finns forskning som pekar på att man bygger nätverk innan man stiger in på en ny marknad, det är väl något som Väderstad har fokuserat på länge?

Att utveckla bestående långa affärsrelationer med viktiga kunder har väl även det varit en tydlig strategi från Väderstad?

Ser ni det så att nätverksbyggandet är en viktig resurs och investering för Väderstad även om den är finansiellt svår ”att ta på”?

Väderstad har ju alltid varit ett jordnära företag i många bemärkelser, nätverket, kunderna och relationen mellan dessa måste ha varit avgörande för att skapa värde och kunna expandera internationellt?

Nästa steg i etableringen utomlands var Ryssland 2007 med eget dotterbolag? Kunde ni ta med erfarenheterna från Ukraina dit när man tänker på de institutionella utmaningarna?

Ni valde även att bygga en fabrik (monteringslinje) i Ryssland och tog därmed steg 4 i internationaliseringskedjan. Var ni först eller fanns konkurrenter redan på plats?

Vilka var de primära drivkrafterna för det (made in Russia, subventioner mm)?

Föll det väl ut med etableringen i Ryssland?

Vilka minor gick man på? T.ex när man försökte förvärva lokal? Kan dessa minor förklaras av institutionerna (ekonomiska, sociala, politiska, legala)? Tanken kommer med IKEAS problem att få elektricitet och brandskyddstillstånd.

Hur kan man hantera korruption? Kan nätverk vara bra för att undvika problem och försöka minimera utmaningarna?

Jag kommer själv från östra Ukraina och mycket av det som upplevs som korruption av utlänningar är social kultur. Ett exempel är att man "ska bjuda på något" eller ta med en present när man har något att diskutera. Har ni stött på detta? Det är ju något som man måste hantera eller känna vad som är lämpligt. Kulturellt är lunchmöten extremt vanligt.

Har ni upplevt att det är svårt "att göra rätt" från början? Det är alltid nått papper som fattas, är oklart, eller som är på gränsen till irrelevant?

Hindrar korruptionen direktinvesteringar i tillväxtmarknader? Det finns de som hävdar att ju större skillnader i korruptionsnivå mellan moderlandet och tillväxtlandet så drivs man att använda strategin "joint venture" eller delägarskap jämfört med ett helägt dotterbolag.

Hur kan man bygga tillit? Hur vet man att man får levererat det som man beställt?

Infann sig några förändringar (ekonomiska, sociala, politiska, legala) som påverkade utfallet på investeringen i monteringsfabriken?

Kan dessa förändringar (om det finns några) kallas för institutionell chock och med kännedom om dessa hur påverkar det viljan att göra liknande investeringar?

Det pågår internationella sanktioner mot Ryssland och det är oroligt i östra Ukraina, detta har givetvis påverkat er på flera olika sätt. Hur ser investeringsviljan ut hos kunderna när det är så oroligt i regionen?

Vad är det största problemet för era kunder med tanke på oroligheterna? Är det valutan? Är det räntekostnad? Är det framtidstro? Är det vetepriiser? Är det nått annat?

Kan man se det som en institutionell chock (politisk)? Att omvärlden införde sanktioner mot Ryssland och inbördeskrig i östra Ukraina.

Påverkar detta viljan att göra direktinvesteringar på denna typ av osäker marknad eller är potentialen tillräckligt stor för att uppväga riskerna?

Hur kan man hantera riskerna, är fabriken organiserad under VVAB eller Väderstad Russia?

Ser du någon risk att det kommer "begränsande" lagstiftning likt det som Kinnevik råkade ut för där de begränsade aktieinnehavet till max 20% i mediaföretag? Man skulle kunna se jordbruksutrustning som "för nationen strategisk produkt"?

Kan man planera för ett sådant scenario eller tar man det om det kommer?

Vilka "entry modes" har Väderstad använt historiskt för att komma in på andra marknader?

Hur stor andel av försäljningen är internationell?

Hur många år har man hållit på med internationell handel?

Varför valde ni att börja med att bli ett internationellt företag?

Hur startade ni internationaliseringen?

Vad är målet? Vi antar att ”global” är ett mål? Och vad innebär ”global”?

Vilka är de viktigaste anledningarna när ni väljer en marknad att börja arbeta på? Och hur väljer ni ”entry mode” enligt ovan?

Varför valde ni att gå in på en ny marknad den senaste gången (Var det ryssland?)

Hur påverkar interna faktorer företagets val av internationella marknader?

Hur påverkade interna faktorer företagets val av ”entry mode”.

Hur hanterar ni risk när ni träder in på en ny marknad?

Hur samlar ni in information om marknadsvilkoren i andra länder?

Hur beslutar ni er för att gå in på en ny marknad? Är det styrelsen som gör det?

Vilka är huvudkonkurrenterna (Horsch, Amazone?)

Hur får ni på information om era konkurrenters aktiviteter på nya marknader?

Vilka mål brukar ni använda er av när ni etablerar er på en ny marknad?

Hur väl har ni lyckats vid inträden på internationella marknader? Bättre eller sämre än förväntat?

Hur påverkar erfarenheten från tidigare inträden när ni letar efter en ny marknad?

Hur snabbt brukar det gå när företaget ser det positiva resultatet av aktiviteterna på en ny marknad?

Har ni någon uttalad strategi när ni etablerar er på en ny marknad?

Vilka externa faktorer påverkar ert val av internationell marknad

Får ni hjälp från svenska myndigheter när ni expanderar?

Vilka faktorer påverkar Väderstads val av ingångsstrategi.

Är det företagsspecifika fördelar, erfarenheter, strategiska överväganden.

Är det omvärldsfaktorer? Efterfrågan, konkurrensfördelar, politiska och ekonomiska villkor, social/kulturella variabler?

Är det ”reglerings variabler”? Som lagar, regleringar, officiell politik, Väderstads egna policy?

Har det generellt varit svårare än man kan tro vid första anblicken att expandera i emerging markets?