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Jukka Tapio Raudaskoski

International project management in the Russian business environment

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Author	Supervisor
Raudaskoski Jukka Tapio	Mainela T, Professor

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Abstract

Project management is a discipline that manages projects, both domestic and international, so that they are completed successfully in time and according to project plan. In international and especially in Russian business context, project management is vital tool in order to fulfill customers' need and solve possible cross-cultural problems and in this way foster new possibilities for new project opportunities for project providers.

Russian business environment is approaching to the Western business culture and environment, but it still has its own characteristics. These characteristics must be taken account when Western project providers enter the Russian markets or operate there.

The purpose of this Master's Thesis was to study how can the international projects be successfully managed in the Russian business context from the project providers´ perspective The focus was on risk management and stakeholder management in the Russian business environment. Also the cultural aspects were taken account in this study.

The research approach of the Thesis was deductive and qualitative. The empirical data was collected through seven unstructured face-to-face interviews with Finnish small and middle sized project providers which possess experience on Russian business environment as well as with Russian business experts.

The result revealed that risk management of projects should be accordance to the target market, in this case the Russian Federation, and must contain also general risk management of project business. Also stakeholder management is vital when operating in Russian business environment since networking and trust are extremely important in Russian business

Keywords

Nature of projects, Project Management, Russian business environment, Risk Management, Stakeholder Management, Cultural aspects of business

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1 INTRODUCTION

Project management is the process by which projects are defined, planned monitored, controlled and delivered such that the agreed benefits are realized. Projects are unique, transient endeavors undertaken to achieve a desired outcome. Projects bring about change and project management is recognized as the most efficient way of managing such change, defines Association for Project Management (2006: 2).

The significance of project business is increasing suggest Artto and Kujala (2008: 469). Recently, project-based business activities are part of all private firms and public organizations. Although existing studies analyze projects, firms, and business, and practitioners increasingly refer to project business, the concept of project business as a research field has remained ambiguous.

Fey and Shekshnia (2008: 28) argue that doing business in Russia will remain a challenging undertaking for the foreseeable future. Some recent moves by the Russian central government suggest that foreign companies may face new formal and informal hurdles such as restrictions on investing in certain industries without presidential approval. The economic potential of Russia, however, warrants the interest and presence of international companies, who we believe can create a great deal of value for themselves and the country. Although doing business in Russia is difficult, the fact that it is challenging also has some advantages. The current challenging atmosphere creates a situation where companies without specialized knowledge of how to operate businesses in Russia are unlikely to be successful. Thus, this creates greater possibilities for those firms that acquire this knowledge to reap greater profits since their unique competence will be harder for competitor to copy.

Research on Russian business and management since the late 1980s has been conducted mostly through surveys, interviews, cases, and conceptual pieces, with a small number of field and laboratory experiments. Thus, a substantial amount of research has been conceptual and descriptive rather than the empirical. A major obstacle to conducting primary research has been the Russian tradition of secrecy and low trust of outsiders, cultural characteristics that have made it difficult to gain access to reliable firm-specific information and credible official government data. As for secondary data, despite indications of increased access to government data and company information, especially from firms listed on stock exchanges, meaningful empirical research using such data will likely continue to be challenging because of a general lack of transparency and questionable data.(Puffer and McCarthy 2011: 29)

The goal of this Master's thesis is to study the international projects and their management in the Russian business environment.

The aim of this research is to find most suitable project management procedures and tools that can improve the results of international projects, operated by foreign project providers in the Russian Federation. It also tries to identify those procedures and risks that could be specific to Russian business environment.

According to Ollus and Torvalds (2005: 9) the market economy in Russia is in its infancy and is still developing. A switch from a planned economy to a market economy does not happen overnight in any country. Russia continues to be a nation with development trends that are difficult to predict and where uncertainties are great. At the same time, knowledge of the country´s business environment, recognition of the risk factors and long-term commitment can engender significant results.

1.1 Research problem and questions

The Research questions of this thesis is; *how can the international projects be successfully managed in the Russian business context?*

The research methodology of the thesis is mainly deductive from the project business and management perspective. Observations as bases for inductive approach has used when Russian business environment has been studied, since that has experienced huge changes in past few years and therefore lacks of, more or less, theoretical perspective. The research methods used in this study are qualitative such as literature reviews and interviews.

Information gap lies on the literature on international projects and project management in Russia. There are not much research done concerning particularly project management and risk management of the international project taken place in the Russian Federation.

According to Puffer and McCarthy (2011: 21) business and management in Russia have undergone substantial change during the past two decades as the country has transitioned from the centrally planned Soviet system to a more market-oriented economy. Russia has not been given as much attention as BRIC nations such as India and China in either academic research or the popular business press, despite its being a global energy giant and major natural resource player as well as a member of the G8 economic powers.

Aleshin (2001: 207) states that economic crisis, absence of necessary knowledge and experience of market economy in Russia has necessitated the need to draw in foreign partners and to realise projects in the form of joint ventures. There are always mutual interests in organising such projects. The main interests of the Russian party are: attracting foreign capital in the conditions of its own limited investment possibilities, feasibility of using highly efficient foreign technologies and advanced world experience, objective necessity of the country's integration into the world economy. A foreign party benefits mainly due to the possibility of penetration into a large-capacity market, getting access to rich natural resources, the opportunity of effective use of excess production capacity in the western market and due to the convenient geographical position of Russia.

Russia has a dynamic, unique, challenging, and sometimes difficult to understand business environment that has caused problems for many foreign firms. As a result, it is risk rather than opportunity that many associate with Russia. There is no denying that doing business in Russia is not for the faint at heart. However, the difficulty to understand Russia´s business environment can also be an advantage as it serves as an entry barrier that assists those who do enter and learn how to operate effectively to reap higher returns, states Fey and Shekshnia (2008: abstract). They (2008: abstract) also suggest that risks can be mitigated and Russia presents good opportunities for skillfully-designed foreign investment projects that take into account local specifics.

Traditionally risk has been viewed as exclusively negative, but in project management it is defined as ´an uncertain event or set of circumstances that, should it occur, will have an effect on achievement of one or more project objectives´, with the clear understanding that risk can affect achievement of project objectives either positively or negatively. The term `risk event` is therefore used to cover both opportunities and threats, and both can be managed through a single risk management process. (APM 2006: 26)

1.2 Motivation

Russia is becoming more and more important for the development of business and competitiveness in Europe in the near future. Russia`s unused potential for science, industry and services offers totally new business opportunities for companies. Foreign investors` interest in Russia is again reviving, but the lack of a realistic picture of the market is still an obstacle to the realization of projects. (Ollus and Torvalds 2005: 5)

Russia as a market and economy has significance. The country has huge natural resources and it is huge measured by the area and significant by the population. International project business operations, such as Nordstream gas pipe from Russia to the East and Central Europe, are complex undertakings but so is the Russian business environment for foreigners. Interesting issues are those which guarantee the success in international project business operations there. The key is the combination of project management and knowledge of Russian business environment (economic-, social-, cultural-, political- and legal factors).

From the project business perspective, the author considers the Russian Federation as an interesting market place for several reasons. Russia, even though currently in recession, have future potentials. It´s resource based industry, such as oil and gas production, needs huge investment in the form of new equipment and production facilities in the future and this creates opportunities for foreign project business firms. Also when existing oil and gas resources will become dry, the urge for more complex and geographically difficultly located wells creates market for project business firms. Russia is huge country geographically and the existing infrastructure is getting more and more worn-out and these need also investments in the future.

1.3 Structure of the report

The thesis consists of two parts. The first part is literature review on subjects studied in this report and the second is empirical study.

The literature review covers first the project business perspective, including general project business framework, than project management framework emphasizing the international perspective. As the sub field of the project management, risk management and stakeholder management are shortly reviewed through published literature. The second part of literature review studies Russia and its business environment mainly from the western perspective.

The empirical part reports the finding that has been gained through the interviews with semi-structure interview questions, answers to the research question and also suggests theoretical and managerial implications.

This thesis contains some material used in the IB seminar study that the author did earlier during his studies. IB seminar study concentrated on risk management of projects in Russia from the Finnish perspective. This thesis is a continuum and it covers now the whole project management context. The Russian business environment has been studied much more broadly and profoundly and the cultural aspects of Russian business has been researched more deeply. Also the perspective is international not only Finnish in this thesis. The recent political and economic changes in Russia has also altered the Russian business environment considerably since the earlier research was conducted and the outlook for project opportunities in the country are now different then earlier.

2 INTERNATIONAL PROJECT BUSINESS AND INTERNATIONAL PROJECT MANAGEMENT

Holstius (2010: 1) states that the technological gap which exists between the industrialized countries and the developing and newly industrializing countries led to fast-growing markets for exporters of projects in the 1970s and early 1980s. At the same time a slowing down in the growth rates of business opportunities in many Western markets forced companies to increase their interest in finding new opportunities and entering new businesses. She (2010: 1) also claims that project business is essentially different from traditional trade with goods and services, and considering it as a strategic choice therefore requiring organizational readiness and a new management approach.

As an internationalisation entry mode, Owusu et al. (2007: 710) suggest that project business is an important and profitable mode of entry into international markets, and can provide international firms with strong competitive niches. Using project business, firms can overcome the problems of risk and lack of international market knowledge, among others, to internationalize relatively quickly.

Project operations cover a broad mix of activities involved in the design and construction of different plants and facilities: such as housing, office buildings, factories, industrial plants, mining developments, defense establishments and social infrastructure facilities (power utilities, transport, etc.) (Luostarinen and Welch 1993: 126).

According to Luostarinen and Welch (1993: 126) there are three major types of project operations: partial, turnkey and turnkey plus projects. In partial projects, project operators may supply on a partial basis, contributing only some part of the goods and services and/or knowhow needed to assemble the total package, although perhaps constituting a complete sub-system – for example the communication system for a new mine. Typically the project contributor in this case will not have any control over the coordination and integration of the total project. This type of project is a partial one for the supplying company but part of a turnkey project from the buyer company`s point of view. However, if the sub-system is being supplied to an existing plant then it is a partial project for both sides.

The key aspect of the turnkey contract situation is that one party is responsible for setting up a plant and putting it into operation – even though there may be many different contributors to the total project. The turnkey responsibility generally includes:

- supply and technology and know-how,
- basic design and engineering,
- supply of complete plant and equipment,
- design and construction of civil works, commissioning of the total plant facilities up to the start-up stage

(Luostarinen and Welch 1993: 126, UN 1983: 6)

By project as a form of international business transaction, Ahmed (1993: 2) means the case when a supplier and a buyer agree upon a commercial transaction providing a solution to an economic problem faced by a buyer. The problem could be on either the macro or the microeconomic level. It could be evident in the lack of the basic physical infrastructure conducive to better economic performance. In which case the sought solution would be in the creation of the missing elements (or an improvement upon the existing ones); the construction of power stations, transportation, communication networks and the like. The deficiency may be on the "social" or "human infrastructure" in which case the solution would be in the building of national human resources development systems (education, training, health care and the like.) The problem may also be manifested on the micro economic level, dealing directly with a specific industry, activity or function, or a specific firm. Certain resources may be un-utilized (or underutilized). Deficient methods in the production and/or distribution of goods/services, leads to deficiency in the economic performance. The sought solution in such case would be the application of a superior technical process aiming at the utilization (or an improvement in the utilization) of the resources. In short, the major premise is that there is a problem that is reflected in a deficient economic performance, and that a solution is known to exist, or can be developed, that can eliminate the problem and improve the economic capabilities of the buyer.

According to Ahmed (1993: 3) projects are special combinations of industrial goods and associated services. They are designed and implemented to order, as solutions to special problems and as such, they are shaped as a result of an interactive process between buyer and seller. The transaction typically involves an integrated package of specific resources, both tangible: machinery, equipment, material and other hardware elements as well as intangible ones: services, know-how, methods, techniques and software. The application of these solutions is performed in a certain time dimension, that is, the transaction is viewed as having a beginning and an end. Project business therefore, involves a combination of four distinctive elements:

- A buyer is in need of a techno-economic solution to a problem.
- A seller offers to provide a solution comprising a combination of:
- Some hardware elements and,
- the software needed to operate it.

Buyers and sellers resort to the project mode of business transaction because of certain characteristics and conditions prevailing in each party`s country, suggests Ahmed (1993: 6). The application of a project form of business transaction implies a certain degree of technological disparity between the parties. By electing to purchase an integrated solution, the buyer passes the responsibility of mobilizing and managing the resources to an outsider. At the same time, the buyer surrenders the overall control over the process for the duration of the implementation period. On the other hand the seller, the expert on the process, agrees to shoulder the responsibilities of resources and activities outside his regular sphere of operations. In return, the seller would have more power over the mobilization and the management of various resources, enlarging his share in the venture and thus enchanting seller`s profit prospects. (Ahmed 1993: 6)

2.1 Nature of projects

Sandhu and Gunasekaran (2004: 673) define a project as being a group of inter-linked activities with a starting and finishing point, in which human, financial, and material resources are organized in such a way as to undertake a unique scope of work, of given specification, within constrains of cost and time, and requiring a central intelligence to direct it. However, the nature of a project can vary from project to project. For example, one project might involve the development of a new product, whereas another project might involve the delivery of a product or service to a certain port or site on the other side of a country.

According to Sandhu and Gunasekaran (2004: 674) it is noteworthy that a project is different from project-based industry. Project-based industry is that an organisation used to manage business activities both in intra-organization as well as inter-organisation or network context. Furthermore, project industry can cover more than one project and carry out similar types of activities in the network context or inter-organisation.

The success of projects is the sum of many different elements that participate in project both internally and externally.

Association for Project Management (hereafter APM) (2006: 1) states that project management fits within the general framework of business and management, and is used to bring about change. Project management is a discipline that is differentiated from the management of an organisation's business-as-usual by the fact that a project has a clear objective and deliverables, with a defined start and end, that must be completed on time, within budget (cost) and to the agreed quality and, of course, it must deliver the agreed benefits.

APM (2006: 24) states that the project management plan brings together all the plans for a project. The purpose of the project management plan (PMP) is to document the outcomes of the planning process and to provide the reference document for managing the project. The project management plan is owned by the project manager.

Project life cycles consist of a number of distinct phases, suggests APM (2006: 80). All projects follow a life cycle and life cycles will differ across industries and business sectors. A life cycle allows the project to be considered as a sequence of phases which provides the structure and approach for progressively delivering the required outputs. Project will always have a beginning and an end, as do phases, and how these points are defined will vary. The project life cycle phases will follow a similar high-level generic sequence: concept, definition, implementation and handover and closeout. In specific circumstances the project life cycle is replaced by an extended form. This extended life cycle includes two further phases: operation and termination

Sandhu and Gunasekran (2004: 674) state that projects involving engineering, procurements, and construction (hereafter EPC), and which involve the installation of product, are called EPC projects. The EPC projects are also referred as turnkey projects but the term turnkey is risky and is more likely to create catastrophic failure. However, the word turnkey, the vendor unwittingly sets up expectations that are impossible to meet although the word turnkey has more power.

Project business is essentially different from traditional trade with goods and services, and considering it as a strategic choice therefore requires organizational readiness and a new management approach, suggest Cova and Holstius (1993: 105). The big advantage of project business is that the new demands in international markets do not necessarily require the development of original new products. The ability to combine and restructure existing or expandable product and service potential can provide firms with new opportunities and relative superiority in project business not only in relatively new market areas such as the oil-exporting and developing countries, but in industrialized countries as well.

Cova and Holstius (1993: 107) define project as a complex transaction covering a discrete package of products, services and other actions designed specially to create capital assets that produce benefits for the buyer over an extended period of time. The definition encompasses the marketing of both extensive and partial projects, such as some subcontractors` deliveries.

According to Cova et al. (2002: 4) projects in different forms and shapes represent a major proportion of international trade and business activities. These activities range from subcontracting to turnkey projects with management or offset contracts. Companies normally known as consumer product companies, such as Alcatel, IBM, Philips, Ericson, Siemens or Schneider, quite often sell their products on a project basis. In addition, there are companies, such as ABB, Alfa Laval, Atlas Copco, Alstrom, Bouygues, Kvaerner, Thales, etc., that always sell their products and services on a project basis.

Cova et al. suggest (2002: 13) that project business has four main characteristics that are more or less interconnected: uniqueness, complexity, discontinuity and the extend of financial commitment. Project business, although gaining more popularity recently, is not a totally new type of business. Many industries (e.g. the construction industry) have always been working on a project basis.

Gann and Salter (2000: 959) state that in project-based productive networks, linkages between firms and other institutions differ from those found in traditional manufacturing approaches, which focus on individual firms with clear boundaries and transactions between them and their operations, working in a purely buy – sell relationship with one another. For example, attention may be focused on coordination mechanism between firms, including non-market mechanisms such as indirect ownership, co-engineering practices and partnering arrangements.

International project is defined by Grisham (2011: 72) as being a unique, transient endeavor undertaken to create a unique product or service that utilizes resources from, or provides product or services in, more than one country. He (2011: 72) further suggests that the customer is an organization, or group of organizations that determines or approves the time, budget, scope, quality and structures of the collaborative project enterprise (CPE). This determination or approval may be done in collaboration with the group providing the services for the project, or it may be done unilaterally. The key goal on international projects is to ensure that the customer is satisfied with the product and the service. The critical importance of customer satisfaction must be emphasized; if the customer is not satisfied, the project will likely not be successful. It is also important to stress that a project is made up of two components: the product of the project (e.g., new power plant) and the project management service (e.g., scheduling, estimating, communications, etc.). Too often, the focus is on the product rather than on the service, to the detriment of the project.

Project suppliers firms are solution providers. A solution may consist of a core project delivery with specific service contents, and/or of separate service deliveries. While a project may include only the delivery of a service component, Artto et al. (2008: 497-498) claim that most large system solutions delivered through projects also include some kinds of core technological products. Therefore they consider project-based firms to provide solutions that integrate a wide wealth of products, services and systems into their offerings to customers. Services have different roles and functions in the business of delivering solutions or systems through projects. Services can be important when integrated into single system solution deliveries and their related projects. However, separately delivered services can also have an impact on the overall business of the project-based firms.

Constructing complex products and systems requires the mobilization and management of a wide range of capabilities. Rarely are these to be found within the sphere of control or ownership of a single enterprise. Project-based methods of production create a need to understand knowledge flows in client and supplier relationships that extend beyond the traditional economic notion of an industry. This has implications for the form of cross-sectorial learning, development and knowledge flows including feedback, learning-by-using. While such learning is generally cumulative, the discontinuous and temporary nature of project-based modes of production creates problems for rapid assimilation of new knowledge through project-based organizations. (Gann and Salter 2000: 955-970)

According to Wikström et al. (2010: 836) project business firms supply different kind solutions and offerings such as electric power and propulsion systems, automation, stainless steel solutions to various industries, ship machinery, propulsion and maneuvering systems, equipment for energy solutions and automation, power plant solution and life-cycle support as well as telecom solutions and equipment.

Project-based companies are increasingly adding services to their offerings, which is often done without a careful analysis which type of impact these services may have to the business of a project-based firm. In addition, the distinction of service and product in project business is often blurred as projects always include both tangible and intangible elements that are integrated to create solution for the customer. In order to clarify concept of service in solution deliveries Kujala et al. (2013: 188) suggest that it contains three different layers: core project delivery, facilitating service products and supporting service products. Each of them may include both tangible and intangible elements. According to research made by Kujala et al. (2013: 188) the contribution of services to the business of a project-based firm can be analyzed from five distinct perspectives: strategic, financial, marketing and sales, research and development, and project implementation. These perspectives can be used to analyze the existing service offerings or the potential benefits of adding new services to offering. As such it can be used as a starting point for the design of organizational arrangements that facilitate the capture of these benefits. However, for example in project sales activities, it requires proper organizational arrangements that facilitate information transfer between sales managers and service engineers.

According to Smyth et al. (2010: 117-118) projects are becoming more complex. The areas of uncertainty and attendant risk are proportionately increasing. Thus, demands from customers upon suppliers are greater than at any previous time. Whilst the "credit crunch" may arrest, even temporarily reverse this trend, the long-term growth in complexity appears unchallenged. The technical scope is growing and thus specialist requirements have driven the trend towards outsourcing to a wide range of suppliers, which has the perceived benefits of risk spreading. In turn this increases demands upon systematic integration of solutions and poses problems for cooperation to identify and deliver added value with "joined up thinking". One example, frequently heralded as a successful construction project is the recently completed Terminal 5 at London Heathrow Airport (although the post-completion opening did not mirror the level of collaborative rigor of the project). Successful technical developments and improved management techniques and applied concepts (e.g. just-in-time, lean and agile production) have helped increase commoditization and standardization of services and products. Although this has not been so dramatic for projects due to the inherent complexity and uncertainties, some progress has been made on these fronts. On the other hand, the inherent nature of most projects, coupled with the increased demands for added value is in parallel also increasing the need for tailoring the services and `project`, in ways that are informed by the "soft" and more intangible goals that strategically inform and drive the project as the solution to societal and organizational problems.

According to Cleden (2009: 23-24) an assessment of the inherent complexity of a project is usually a good indicator of how much latent uncertainty there are in the project. The measure of project complexity depends on two things:

- the number of project elements;
- the number and nature of interaction between elements.

A large project has many different elements: many different tasks to be performed, deliverables to be produced, subcontractor inputs to be controlled, a large team to be managed, etc. But this is only one dimension of complexity: if these elements interact with each other and have non-trivial dependencies, it creates a complex set of interrelationship. Changes to one part of the system may have large or hard to predict consequences for other parts of the project.

Wikström et al. (2009: 121) state that the most relevant core project complexity drivers are: unit cost/financial scale of project, variety of distinct knowledge bases, extent of embedded software in the product, degree of technological novelty, variety of skill and engineering outputs and degree of customization of final system.

A great deal of literature has pointed to the importance of trust as a facilitator of positive relationships among project stakeholders. Trust is argued to enhance a variety of intra-organizational relationships, including project team dynamics, top management support, and coordination across functional departments. Likewise, trust is argued to improve the inter-organizational relationships among principal actors in project development, such as contractors, owners, and suppliers. According to Pinto et al. (2009: 638) trust has different meanings for contractors and project owners, as its impact on satisfaction with the relationship and positive project outcomes varies depending upon which group is surveyed.

To characterize project business and to differentiate it from consumer as well as industrial services and goods, numerous dimensions can be used. As project marketing lies closer to industrial goods and services, also called business-to-business marketing, perhaps it is more important to relate projects to industrial goods and services. In this way, a continuum can be drawn up with on projects on one side and industrial services and products on the other, taking into account a variable degree of difference:

- from unit or very small series production to mass production;
- from made-to-measure demand to standard demand;
- from discontinuous supplier/customer business relations to continuous business relations;
- from rare transactions between supplier and customer (sometimes once every 5 years!) to frequent transactions;

- from very long duration transactions (of around 2 years between the first contact and the conclusion of the contract) to short transactions;
- from a very high financial commitment for unit purchased to a low financial commitment;
- from relatively formal buying procedures (especially in the case of public markets) to more informal quotation requests;
- from fragmentation of buying centres and sales centres into two multi-organizational groups (e.g. customer + consultant + development bank on one side, supplier +industrial partners + financial partners on the other) to mono-organizational buying centres and sales centres.)

By reading this list of characteristics, it can be seen that project marketing specialists recognize their domain intuitively and do not at the moment rely on a classification of industrial activities that allows them to universally categorize projects on one side and products and services on the other. (Cova et al. 2002: 3-4)

According to Kerzner (2003:426) the difference between the good project manager and the poor project manager is often described in one word: planning. Project planning involves planning for:

- Schedule development
- Budget development
- Project administration
- Leadership styles
- Conflict management

The first two items involve the quantitative aspects of planning. Planning for project administration includes the development of the linear responsibility chart. Although each project manager has the authority and responsibility to establish project policies and procedures, they must fall within the general guidelines established by top management.

Linear responsibility charts (LRC) can result from customer-imposed requirements above and beyond operations. For example, the customer may require as part of his quality control requirements that a specific engineer supervise and approve all testing of a certain item, or that another individual approve all data released to the customer over and above program office approval. Customer requirements similar to those identified above require LRCs and can cause disruptions and conflicts within an organization.

Kerzner (2003: 426) states that several key factors affect the delegation of authority and responsibility both from upper-level management to project management and from project management to functional management. These key factors include:

- The maturity of the project management function
- The size, nature, and business base of the company
- The size and nature of the project
- The life cycle of the project
- The capabilities of management at all levels

Kerzner (2003: 426-427) further suggests that once agreement has been reached on the project manager´s authority and responsibility, the results may be documented to delineate that role regarding:

- Focal position
- Conflict between the project manager and functional managers
- Influence to cut across functional and organizational lines
- Participation in major management and technical decisions
- Collaboration in staffing the project
- Control over allocation and expenditure of funds
- Selection of subcontractors
- Rights in resolving conflicts Input in maintaining the integrity of the project team
- Establishment of project plans
- Provision for a cost-effective information system for control
- Provision for leadership in preparing operational requirements
- Maintenance of prime customer liaison and contact
- Promotion of technological and managerial improvements
- Establishment of project organization for the duration
- Elimination of red tape

Documenting the project manager`s authority is necessary in some situations because:

- All interfacing must be kept as simple as possible.
- The project manager must have the authority to “force” functional managers to depart from existing standards and possibly incur risk
- Gaining authority over those elements of a program that are not under the project manager´s control is essential. This is normally achieved by earning the respect of the individuals concerned.
- The project manager should not attempt to fully describe the exact authority and responsibilities of the project office personnel or team members. Problem-solving rather than role definition should be encouraged.
- (Kerzner 2003: 427)

According to Kerzner (2003: 427) power and authority are often discussed as though they go hand in hand. Authority comes from people above you, perhaps by delegation, whereas power comes from people below you. You can have authority without power or power without authority. In a traditional organizational structure, most individuals maintain position power. The higher up you sit the more power you have. But in project management, the reporting level of the project might be irrelevant, especially if a sponsor exists. In project management, the project manager´s power base emanates from his

- Expertise (technical or managerial)
- Credibility with employees
- Sound decision-making ability

The last item is usually preferred. If the project manager is regarded as a sound decision-maker, then the employees normally give the project manager a great deal of power over them. Kerzner (2003: 427)

Leadership styles refer to the interpersonal influence modes that a project manager can use. Project manager may have to use several different leadership styles, depending on the makeup of the project personnel. Conflict management is important because if the project manager can predict what conflicts will occur and when they are most likely to occur, he may be able to plan for the resolution of the conflicts through project administration. (Kerzner 2003: 426-428)

There is differences between private sector projects and government projects. According to Patanakul et al. (2016: 455) government projects are funded for different purposes than those of private sector projects. Whereas private sector projects are driven by profit maximization and return on investment, government projects are not-for-profit and funded to make efficient use of tax resources, and increase social and democratic values, such as equality, openness, and transparency. As a result, government projects often target non-financial benefits. They are undertaken in the service of the public (for the public good), rather than being driven by revenue or profit.

Patanakul et al. (2016: 460) state that the mandatory use of a formal process makes the management of governmental projects rather unique. This includes the formality and intensity of processes for budgeting, project planning and execution, project monitoring and control, project governance, and internal audits and reviews.

Public sector project management inefficiency is a serious problem for many countries, in particularly for post-communist states and developing economies. In those countries, direct government investments and various types of government support for private investments form an essential part of national development programs, suggests Kossova and Sheluntcova (2015: 403).

2.2 International project management

The level of project complexity is an important characteristic that project managers have to consider since it can be used as an indicator for selecting appropriate project management approach (Patanakul et al. 2016: 458).

What is the role of project management? According to Bergun (2005: 7) project management can be a profession, a job, a role, or an activity. Some companies have project managers whose job is to oversee entire 200-person projects. Others use the title for line-level junior managers, each responsible for a small area of a large project. Depending on how an organisation is structured, what its culture is, and what the goals of project are, project management can be an informal role ("it's done by whomever, whenever necessary") or highly defined ("Vincent, Claude, and Raphael are full-time project managers").

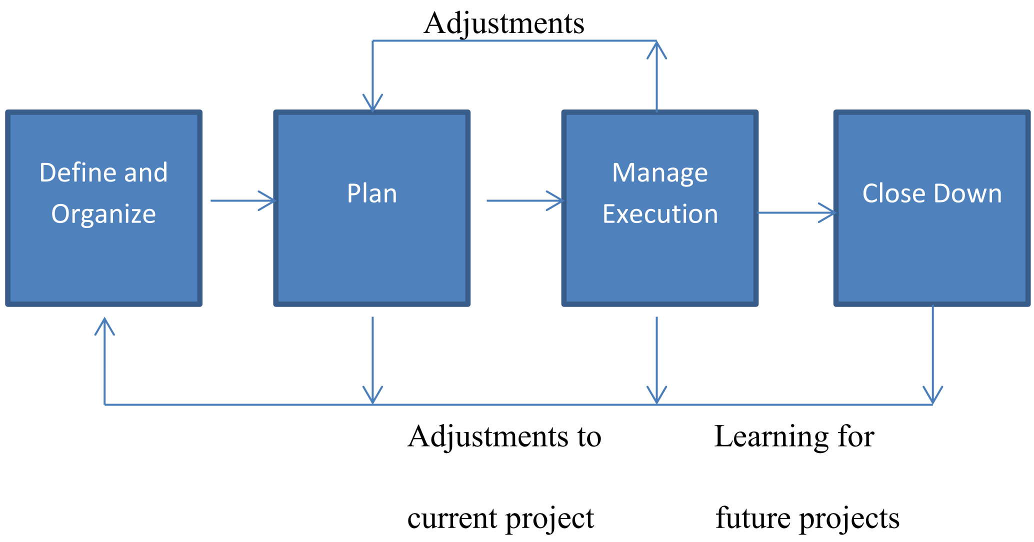
Project management can be described also as a process, containing four-phases.

1. Defining and organizing the project
2. Planning the project
3. Managing project execution
4. Closing down the project

(Harvard Business School Press 1, 2006: 2)

Figure 1 The Project Management Model

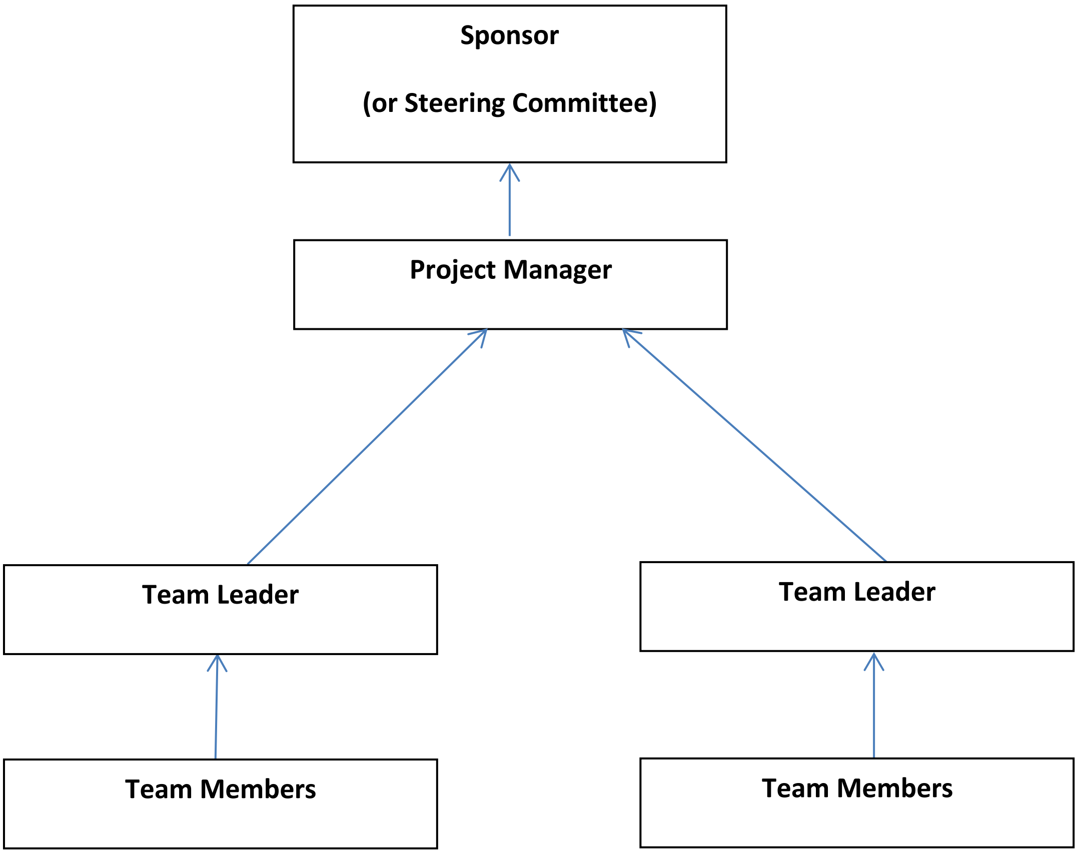
(Harvard Business School Press 1, 2006: 3)



Bergun (2005:8) also states that by *project management activity* he means leading the team in figuring out what the project is (planning, scheduling, and requirements gathering), shepherding the project through design and development work (communication, decision making, and mid-game strategy), and driving the project through to completion (leadership, crisis management, and end-game strategy).

The success of project work is naturally affected by the people who participate. Yes, a sound organizational structure matters; so does good management. But neither will produce a satisfactory outcome if the right people are not on board – or if those people are not clear about their roles (Harvard business school 2006: 2).

Figure 2 Who´s who in project management: Sponsors, project managers, project Team leaders, and members (Harvard Business School Press 2, 2006: 6)



The role of the sponsor is probably the most unknown in project management, suggests Harvard Business School Press (2006: 4). Whether a project is formed by a manager or by a group of staff members, it must have a sponsor. The sponsor authorizes the project. He or she should be a manager or executive with a real stake in the outcome and with accountability for the project´s performance. The sponsor should also have the authority to define the scope of the work, provide it with necessary resources, and approve or reject the final output.

In other words, the sponsor should be a person with real clout – someone who´s capable of

- championing the project at the highest level,
- clearing away organizational obstructions,
- providing the resources required for success, and
- communicating effectively with the CEO and key stakeholders.

(Harvard Business School Press, 2006: 4)

According to (Berkun 2005: 178) project managers (hereafter PM) are only as good as their relationships with the people on the team. No matter how brilliant or knowledgeable the PM is, his value is determined by how well he can apply those traits to the project through other people. For example, because programmers and testers do most of the actual work, any value the PM adds has to be through those people. This does not mean micromanaging them or becoming an expert in those skills; it is about seeing the PM role as amplifying the value of those other workers in any way possible.

Communication has very vital role in project management. (Berkun 2005: 184)

- Projects happen only through communication. In modern times, speed is not the communication bottleneck, quality is.
- There are several frameworks for how people communicate with each other. PMs should be familiar with them so that they can diagnose and resolve communication breakdowns.
- There are several common communication problems. They include: assumption, lack of clarity, not listening, dictation, personal attacks, and blame.
- Ask people what they need in order to do their best work. Ways to do this include: listening, clearing roadblocks, teaching, and reminding them of goals.

- Relationship and communication are not low-priority work. They are essential to all of the individual activities that take place during a project.

According to APM (2006: 6) programme management is the coordinated management of related projects, which may include related business-as-usual activities that together achieve a beneficial change of a strategic nature for an organization. What constitutes a program will vary across industries and business sectors but there are core programme management processes.

Pellegrinelli (1997: 141) states that a programme is a framework for grouping existing projects or defining new projects, and for focusing all the activities required to achieve a set of major benefits. These projects are managed in a coordinated way, either to achieve a common goal, or to extract benefits which would otherwise not be realized if they were managed independently. Programmes differ from projects in that they do not necessarily have a single, clearly deliverable, or a finite time horizon. Of particular importance are three features of programmes which:

- create benefits through better organization of projects and their activities; in themselves they do not deliver the projects` objectives;
- evolve in response to the business` needs in an uncertain competitive, political and technological environment, in a way straddling the vague and changing, and the fixed and tangible;
- take a wider view to ensure that the overall business benefits from projects` activities, not just the project client or sponsor.

According to Lycett et al. (2004: 290) thus, while programmes create benefits through better organization of projects, they do not in themselves deliver individual project objectives. The fundamental goals of programme management can be categorized twofold:

- *Efficiency and effectiveness goals.* Aspects of management that a proficient project manager should address, even in the cases where related projects are undertaken without overall co-ordination. It is believed that a general improvement in management efficiency and effectiveness can be achieved by taking an integrated approach to these particular aspects of management.

- *Business focus goals.* The external alignment of projects with the requirement, goals, drivers and culture of the wider organization. These goals are associated with defining an appropriate direction for the constituent project within a programme as well as for the programme as a whole.

Programmes create value by improving on the management of projects in isolation, especially where the working environment is made up of a myriad of small projects and where project integration in terms of both development and deliverables is crucial to competitive success, argues Pellegrinelli (1997: 142). The advantages cited by organisations using programmes include:

- greater visibility of projects to senior management and more comprehensive reporting of progress, while project reporting systems focus on performance against plan or specific objectives, programme reporting can better address strategic performance by tracking progress relative to competitors
- better prioritization of projects; each project`s role within the organization`s overall development is specifically identified and managed, and resources can be more easily re-allocated to critical projects even after funds have been assigned to individual projects;
- more efficient and appropriate use of resources; dedicated or ring-fenced resources, which tend to be more productive, can become cost-effective within a programme context;
- project driven by business needs; project and line managers` personal agendas, such as the desire to apply the latest technology, utilize existing staff or fulfill personal research interest can be kept in check;
- better planning and coordination; incidence of work backlogs and duplication of core functionality and components can be reduced;
- explicit recognition and understanding of dependencies; re-engineering due to inadequate interface management with existing systems and other projects can be minimized.

While these advantages are not guaranteed, the application of programme management can make the most of resources and effort expended on projects, and can sustain the drive to maximize the benefits to the business. (Pellegrinelli 1997 : 142-143)

Buuren et al. (20120: 675) uses the term “Program management”. They suggest that program management aims to solve the problems of separation in terms of content, organization and process. However, this depends on the degree to which the program is harnessed. Three levels of intensity of program management are identified:

- Program management as a light coordination mechanism for multiple projects
- Program management as a ”shared service centre” for projects
- Program management as an integrated development strategy in which projects are building blocks for the overarching program objective

According to APM (2006:8) portfolio management is the selection and management of all of an organization`s projects, programmes and related business-as-usual activities taking into account resource constrains. A portfolio is a group of projects and programmes carried out under the sponsorship of an organization. Portfolios can be managed at an organizational, programme or functional level.

Pellegrinelli (1997:143) considers portfolio as being one configuration of programs: Portfolio programmes are those which enable the grouping of projects which are relatively independent of one another but have a common theme. The existence of this theme means that the performance of the project can be improved through coordination. The theme can be common resources, in which case the desired benefit might be better resource utilization and personnel development, or technology, in which case the desired benefit might be the exploitation of the latest techniques or developments. The definition of the projects is generally outside the programme`s sphere of influence, but the planning and execution of the project work is coordinated via programme structures. Exceptionally, the project definition is amended to enable additional benefits to be derived, such as more generic functionality or extra applications development of a new technology. *In summary, the portfolio programme is mainly concerned with the process of managing projects with a view to efficient resource utilization and leveraging existing knowledge or skills.*

According to Kerzner (2003:323-324) mega projects may have a different set of rules and guidelines from those of smaller projects. For example, in large projects:

- Vast number of people may be required, often for short or intense period of time.
- Continuous organizational restructuring may be necessary as each project goes through a different life-cycle phase.
- The matrix and project organizational form may be used interchangeably.
- The following elements are critical for success.
    - Training in project management
    - Rules and procedures clearly defined
    - Communications in all levels
    - Quality front-end planning

Many companies dream of winning mega projects contracts only to find disaster rather than a pot of gold. The difficulty in managing mega projects stems mainly from resource restrain:

- Lack of available on-site workers (or local labor forces)
- Lack of skilled workers
- Lack of properly trained on-site supervision
- Lack of raw materials

As a result of such problems, the company immediately assigns its best employees to the mega project, thus creating severe risks for the smaller projects, many of which could lead to substantial follow-on business. Overtime is usually required, on a prolonged basis and this results in lower efficiency and unhappy employees. (Kerzner 2003: 323-324)

As the project schedule slips, management hires additional home-office personnel to support the project. By the same time that the project is finished, the total organization is overstaffed, many smaller customers have taken their business elsewhere, and the company finds itself in the position of needing another mega project in order to survive and support the existing staff. (Kerzner 2003: 324)

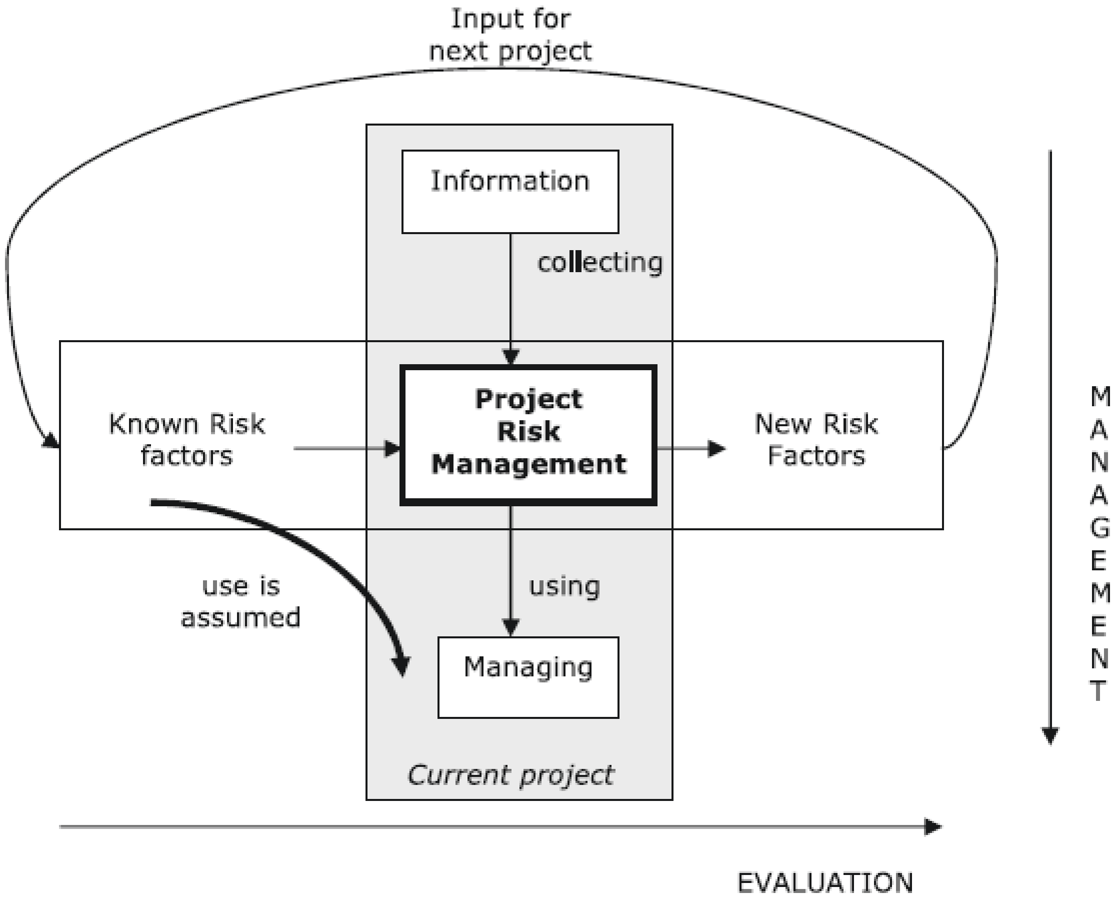
Kerzner (2003: 324) argues that mega projects are not always as glorious as people think they are. Organizational stability, accompanied by a moderate growth rate, may be more important than quantum steps to mega projects. The lesson here is that mega projects should be left to those companies that have the facilities, expertise, resources, and management know-how to handle the situation.

Project managers must understand human nature and personalities in order to select team members, assign correct roles and responsibilities and perform stakeholder analysis. In addition to this, *global* project managers need to recognize how the different attitudes, beliefs, behavioral norms and basic assumptions and values can influence the collaboration among team members coming from multiple countries, and learn how to adapt their leadership style to the different cultures involved in the project. (Binder 2008: 24)

2.3 Risk management

Bakker et al. (2010: 495) state that there are two approaches in the literature that describe risk management in projects: the evaluation approach and the management approach. The evaluation approach considers risk management as an analysis process aimed at determining risk factors. Information about project failure and its causes is collected ex-post and ideally this information is used in checklists for risk identification, or to set up the structure of future projects and manage their risks. The contribution of risk management to project success is indirect, because the information collected is used in future projects.

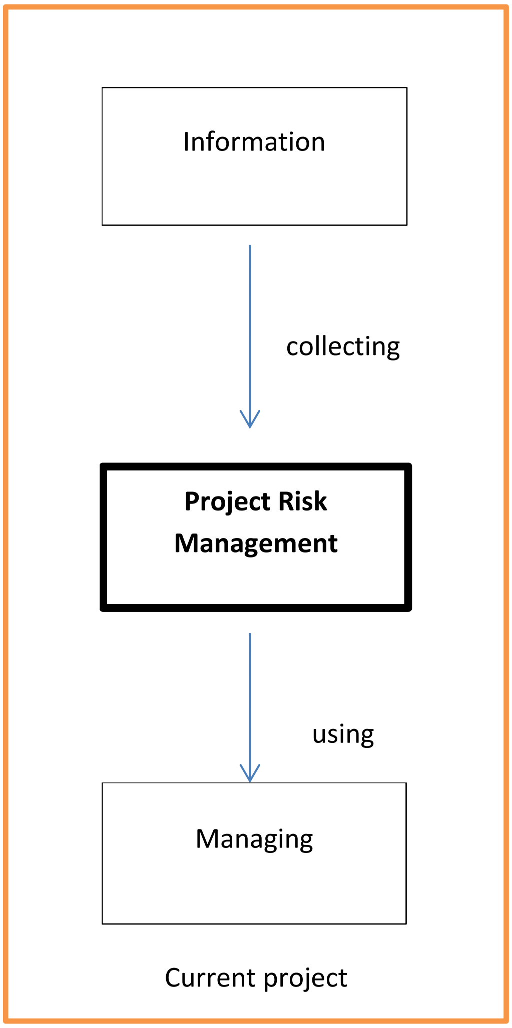
Figure 3 The evaluation approach to project risk management (Bakker et al. 2010:494)



The management approach considers risk management to be a management instrument by which information is collected and analysed to support the decision making process in a particular project. This approach does not look for generic risks, but instead focuses on managing the risks that are relevant in the project in question.

During risk identification, checklists may be used, but the focus is on project specific risks. Therefore, free-format information generation techniques like e.g. brainstorm sessions are used often. The eventual contribution of the risk management approach to project success is direct (Bakker et al. 2010: 495)

Figure 4 The management approach to project risk management (Bakker et al. 2010: 495)



Some degree of risk always exists in project, technical, test, logistics, production, and engineering areas. Project risk include cost, funding, schedule, contract relationship, and political. (Cost and schedule risks are often so fundamental to a project that they may be treated as stand-alone risk categories.) Technical risk, such as related to engineering and technology, may involve the risk of meeting a performance requirement, but may also involve risks in the feasibility of a design concept or the risks associated with using state-of-the art equipment or software. Production risk includes concerns over packaging, manufacturing, lead time, and material availability. Support risk includes maintainability, operability, and trainability concerns. The understanding of risks in these and other areas evolves over time. Consequently, risk identification must continue through all project phases. (Kerzner 2003: 664)

According to Remington (2011: 26) complex projects, like complex adaptive systems, are characterized by high levels of:

- Uncertainty
- Ambiguity
- Decreasing level of trust

Risk events are likely to have emergent, non-linear characteristics which increase the level of uncertainty. Event pathways are often not predictable. Therefore, early recognition that risk events might escalate in a non-linear, unpredictable way might encourage decision makers to make sensible and timely decisions about communication, key role capabilities and governance. It has the effect of raising the general level of alertness and an atmosphere of preparedness develops. Nevertheless, getting key senior stakeholders to understand and acknowledge the likelihood of the effects of complexity is not always easy. In spite of the uncertainty many complex projects are led and managed successfully.

Kerzner (2003: 542) further states that project plans are “living documents” and are therefore subject to change. Changes are needed in order to prevent or rectify unfortunate situations. These unfortunate situations can be called project risks. Risk refers to those dangerous activities or factors that, if they occur, will *increase* the probability that the project`s goals of time, cost, and performance will not be met. Many risks can be anticipated and controlled. Furthermore, risk management must be an integral part of project management throughout the entire life cycle of the project. Some common risks include:

- Poorly defined requirements
- Lack of qualified resources
- Lack of management support
- Poor estimating
- Inexperienced project manager

According to Kerzner (2003: 542) risk identification is an art. It requires the project manager to probe, penetrate, and analyze all data. Tools that can be used by the project manager include:

- Decision support systems
- Expected value measures
- Trend analysis/projections
- Independent reviews and audits

Managing project risks is not as difficult as it may seem. There are six steps in the risk management process:

- Identification of the risk
- Quantifying the risk
- Prioritizing the risk
- Developing a strategy for managing the risk
- Project sponsor/executive review
- Taking action

(Kerzner 2003: 544-546)

2.4 Risks in international projects

"Most business decisions are based on a risk/reward balance. Generally the greater the reward the more risk an organization is willing to accept, with one key exception. All organizations have a level of risk tolerance they will not exceed no matter how great the potential reward (Good: 7)*."*

What is risk and how can it be defined? According to Jaafari (2001: 89) risk is defined as the exposure to loss/gain, or the probability of occurrence of loss/gain multiplied by its respective magnitude. Events are said to be certain if the probability of their occurrence is 100% or totally uncertain if the probability of occurrence is 0%. In between these extremes the uncertainty varies quite widely.

Jaafari (2001: 90) also states that today's projects are subject to uncertainties due to the tree principal sources: external factors, shifting business objectives and poorly defined methods for project realisation. The latter is not due to poor knowledge and experience of the project team but also due to project complexity and absence of repetition (most projects are unique undertakings). Examples of external factors include commercial and competitive pressures, collision of social, political and institutional norms and rules with project financial and technical goals, shifting requirements of project stakeholders etc.

Jaafari (2001: 92) lists typical project risk variables as being; promotion risk, market risks (volume and price), political risks, technical risks, financing risks, environmental risks, cost estimate risk (completion risk), schedule risk (delay risk), operating risk, organizational risk, integration risk and *Force majeure*.

Project risks can generally be classified into two categories, systemic risk and project specific risks, suggests Good (2009:7). Systemic risks are defined as system attributes that tend to be independent of the specific project one is evaluating. Typical factors considered as systemic risks include the degree to which new technology is being applied, complexity of the project, level of project scope definition, and quality of the source information used to define the project. On the other hand, project specific risks result from attributes, conditions, activities and characteristics that are very specific to one project. Examples of project specific risks are: the uncertainty regarding the cost or availability of certain goods or services, project specific regulatory or stakeholder concerns, technically challenging aspects of the projects, construction timing, etc.

According to Cabano (2004: 1) environmental regulation changes, political issues, currency conversion rates, climate fluctuations, etc. are often not considered capital project risks but rather just the world in which we live. But when considered in the context of an international capital project they become huge issues that must be addressed if one is hoping for a successful project that will increase the profitability of the owner or operator. For example a power –plant contractor that executes project in the Middle East might identify risks including natural events (a sand storm), technical events (a test failure), partner events (a supplier not delivering), financial events (a guarantee falling through) or political events (a local broker`s resistance). (Meyer et al. 2002: 61)

Project Risk Analysis and Management Guide of APM (2004: 17) suggests that the word “risk” can be interpreted in different ways. The term risk event describes an individual uncertainty which can be identified, assessed and managed through the project risk management process, and is defined as follows: A risk event is an uncertain event or set of circumstances that, should it occur, will have an effect on achievement of one or more of the project`s objectives. The term “project risk” is used to describe the joint effect of risk events and other source of uncertainty. At an overall project level, project risk, rather than individual risk events must be the focus, but it is important to understand how project risk is defined by its components, and to manage it at both level. Project risk is defined as follows: Project risk is the exposure of stakeholders to the consequences of variations in outcome. Project risk therefore results from the accumulation of a number of individual risk events, together with other sources of uncertainty to the project as a whole, such as variability and ambiguity.

The world in which we live is risky in itself, states Cabano (2004: 1-2), for instance, there are climate risks (weather, earthquakes, etc.), political risks (political unrest, new leaders or heads of government, wars, etc.), cultural risks, communication risks (different languages, misunderstandings, etc.), and so on. The project providers need to be aware of the outside influences on a project and how they impact project execution. This is an area where they must do their utmost to understand the project location, competing projects, local labor availability and skills, political issues, cultures, etc. One cannot expect to execute the same project in two different countries with the same execution approach. Such a practice is often attempted by owner organizations, especially if the initial projects were a success.

Although risk factors in overseas construction are different from project to project, there are some factors that affect overseas projects in general. Zhi (1995: 231-232) presents a hierarchical structure for classifying various sources of risk in overseas projects.

National/ regional risks

- Political situation
- Economical and financial situation
- Social environment

Industry specific risks

- Market fluctuations
- Law and regulations
- Standards and codes
- Contract system

Company specific risks

- Employer/owner
- Architect
- Labor and sub-contractors
- Materials and equipment
- Internal

Project specific risks

- Defective physical works
- Schedule delay
- Cost overrun

A large-scale project is often monolithic – that is, everything is invested in one project infrastructure: one way of working, one set of relationships between supplier and client, and one set of tools and processes. Similarly, big programmes generate huge momentum which makes it difficult to change direction suddenly or react to unexpected problems, states Cleden (2009: 102). With so much invested in a large project, the planning must often stretch years into the future. The level of detail and forecasting accuracy upon which so many decisions and huge sums of money depend, creates obvious weaknesses. Unfortunately, this means a monolithic project is often built on a set of planning assumptions which are fixed and immutable, even though the plan may be forced to change for a variety of reasons. Vulnerability to uncertainty is built in – either because of inflexibility when the unexpected happens, or because latent uncertainty is unknowingly incorporated during the planning stage.

According to Lock (2003: 573) project risks can be predictable, or completely unforeseeable. They might be caused by the physical elements, or they could be political, economic, commercial, technical, or operational in origin. Freak events have been known to disrupt projects, such as the unexpected discovery of important archaeological remains, or the decision by a few members of a rare protected species to establish their family home on what should be the site of a new project. The potential effects of risks range from trivial inconvenience to project disaster. Project risk management (and much of mainstream project management) is concerned with attempting to identify all the reasonable foreseeable risks, assessing the probability and severity of those risks, and then deciding what might be done to reduce their possible impact or avoid them altogether.

Some risks, suggests Lock (2003: 573), can occur at any stage in a project, whilst others are associated with particular tasks. Generally speaking, a risk event that occurs late in a project will be more costly in terms of time and money than a similar event nearer the start of the project. That is because, as time passes, there will be a greater value of work in progress and higher sunk costs at risk of loss or damage. Risk management must therefore be considered early, along with the initial project planning, so that a risk strategy can be developed to identify the risks and decide how to pre-empt them as far as is economically practicable through tactical measures. The strategy should be reviewed from time to time throughout the project to ensure that it remains comprehensive and valid.

Project risk management is a particularly complex subject. Even the classification of risks is not straightforward, and can be approached in different ways. There are several techniques for assessing and dealing with project risks, some of which are shared with other management disciplines (particularly quality management and reliability engineering). (Lock 2003: 573)

Risks can be foreseeable or totally unpredictable. For example, it is almost certain that some tasks will not be completed in line with their duration estimates and budget. Some might exceed their estimates, while others could be finished early and cost less than expected. Indeed, statistical tools can be used to attempt an assessment of the probability of the project finishing by its target completion date. (Lock 2003: 574)

Checklists which grow in size and value as companies gain more project experience are a good starting point for listing the foreseeable risks. Studying the history of similar projects can also highlight possible problems and help the project manager to learn from mistakes and experiences of others. It is desirable, even at the early listing stage, to attempt some form of risk classification. Perhaps the most practicable initial approach is to divide the list according to the stage in the project life cycle where each risk is most likely to occur. For example, risks might be grouped initially under the following headings:

- risks most likely to occur at the start of the project
- risks most likely to occur during the execution of the project
- risks that can affect the final stages of a project, particularly during commissioning
- risks occurring during the initial period of project operations, after hand over to the customer
- risks that can occur at any time in the project.

Once identified, risks can be ranked according to the probability of their occurrence and the severity of the impact if they should occur. For this, it is necessary to start by considering the possible causes and effects of every risk. (Lock 2003: 574)

According to Lock (2003: 582-583) when all the known risks have been listed, assessed and ranked it is time to consider what might be done about them. The manager has a range of options:

- **Avoid the risk** – The only way to avoid a risk is to abandon the possible causes, which could even mean deciding not to undertake a project at all.
- **Take precautions to prevent or mitigate risk impact** – This is a most important part of risk management, requiring the active participation of all managers and staff. It needs a high-level risk prevention strategy combined with executive determination to ensure that all preventive measures are always followed throughout all parts of the organization. It requires the

creation of a risk prevention culture, covering all aspects of project tasks, health and safety, and consideration for the environment.

- **Accept the risk** - Rain might make the day chosen for office relocation miserable for all concerned, but the risk would have to be accepted. There are numerous small thinks that can go wrong during the course of any project, and most of these risks can be accepted in the knowledge that their effect is not likely to be serious, and that they can be overcome by corrective measures or re-planning.
- **Share the risk** - If a project, or a substantial part of it, appears to carry very high risk, the contractor might seek one or more partners to undertake the work as a joint venture. Then the impact of any failure would be shared among the partners. Sharing a risk big enough to ruin one company might reduce its impact to little more than a temporary inconvenience.
- **Limit the risk** – There are occasions when project risks should only be accepted with safeguards in place to limit their potential effect. A good example is an internal project, perhaps for pure research, that cannot be adequately defined at the outset. No one can tell how much the project will eventually cost or what its outcome might be. Yet the opportunities are too great to consider avoiding the risk altogether.
- **Transfer the risk** – Some risks, or substantial parts of them, can be transferred to another party on payment of a fee or premium. Taking an insurance is good example of this. (Lock 2003: 582-583)

Cost control is equally important to all companies, regardless of size, emphasizes Kerzner (2003: 565). Small companies generally have tighter monetary controls because the failure of even one project can put the company at risk, but they have less sophisticated control techniques. Large companies may have the luxury to spread project losses over several projects, whereas the small company may have few projects. Many people have a poor understanding of cost control. Cost control is not only “monitoring” costs and recording data, but also analyzing the data in order to take corrective actions before it is too late. Cost control should be performed by all personnel who incur costs, not merely the project office. Cost control implies good cost management, which must include:

- Cost estimating
- Cost accounting
- Project cash flow
- Company cash flow
- Direct labor costing
- Overhead rate costing
- Other tactics, such as incentives, penalties, and profit sharing

(Kerzner 2003: 565-566)

According to Kerzner (2003: 580) the project budget must be reasonable, attainable, and based on contractually negotiated costs and the statement of work. The basis for the budget is either historical cost, best estimates, or industrial engineering standards. The budget must identify planned manpower requirements, contract allocated funds, and management reserve. All budgets must be traceable through the budget "log", which includes:

- Distributed budget
- Management reserve
- Undistributed budget
- Contract changes

(Kerzner 2003: 580)

APM (2006: 40) states that budgeting and cost management is the estimating of costs and the setting of an agreed budget, and the management of actual and forecasted costs against that budget. An initial cost estimate cost estimate is included in the business case, and used as part of the investment appraisal of the project. The initial cost estimate is refined in line with scope, schedule and resources. The result of this refinement will produce an overall cost estimate that should include an allowance for risk and contingency. The cost estimate will need to be iteratively revised to suit the constraints of the business case. When the cost estimate has been agreed with sponsor, this becomes the budget.

Cost management is the monitoring and control of costs against the budget. Cost management will require the recording and monitoring of the following:

- Commitment: this reflects the placement of an order for work to be done, and is the amount of money removed from the budget represented by this order.
- Accrual: work done for which payment is due but has not been made.
- Actual expenditure: the money that has already been paid.
- Forecast out-turn cost: the total of actual expenditure, accruals, commitments and the estimate of the costs to complete the work to the end of the project.

(APM 2006:40)

As part of monitoring, the performance of a project is reviewed at regular intervals. Reviews should consider non-financial information such as scope and schedule, to assist with the assessment of cost performance. By comparing actual cost against total budget and the expenditure profile, trends may be identified that can be extended to determine the forecast out-turn cost. Identifying and taking corrective action to minimize adverse variance against budget is necessary for effective control. Such review form part of earned value management. The budget should be reviewed at appropriate points, for example as part of periodic reporting and at gate reviews, and any change to the budget should only be undertaken as part of change control. (APM 2006:40-41)

2.5 Stakeholder management

"Stakeholder management is the systematic identification, analysis and planning of actions to communicate with, negotiate with and influence stakeholders. Stakeholders are all those who have an interest or role in the project or are impacted by the project. (APM 2006: 20)"

Gemünden (2015: 3) states that initially, stakeholder management was a concept derived from the resource-dependence view of firms and emphasized investors and market and development partners as important stakeholders, followed by the view extended towards a variety of other stakeholders that offer critical resources. The concept then also addressed the *risks* that organizations and individual have at stake. Today the concept also embraces *ethical issues* as a core concern of stakeholder management. Thus the meaning of stakeholder management has changed from the management *of* stakeholders in the interest of a specific group of stakeholders, in particular stakeholders, to the management *for* a multitude of stakeholders that might have conflicting interest. This implies, stresses Gemünden (2015: 3), that the project manager is not only responsible for the interest of an organization that employs him or her as an organizational member or has contracted his or her services as a client, but is also responsible for the concerns of *other* stakeholders that are not paying him or her. Stakeholder management will stay an ongoing central issue of project management, and there are many interesting research questions in this area.

According to APM (2006: 20) stakeholders have a key role in defining the success criteria used to judge the success of the project and their interest and power should not be overlooked. Stakeholders must be identified, their level of interest (positive or negative) and power to influence the success of the project analyzed, and plans devised for their management. Stakeholder management is an iterative process which starts during project concept. Stakeholder identification requires consideration of who is involved in, affected by or can affect the project. Brainstorming of potential stakeholders may identify:

- resources needed for the project;
- organizations or people who will be affected by the project;
- organizations or people on the sidelines of the project who will influence attitudes and behavior;
- statutory and regulatory bodies.

Stakeholder management becomes more complex when stakeholders` views are not consistent throughout the life cycle of the project as changes occur in their opinions, roles, views regarding the project and allegiances. The stakeholder analysis will need to be review throughout the life cycle. *The project´s communication plan* should be employed as a tool for stakeholder management. It may include who the stakeholders are and their communication needs, and who is responsible for their management and planned responses, suggests APM (2006: 21)

Aaltonen (2012: 108) states that international projects affect and are affected by multiple stakeholders with differing interests and demands. Consequently, understanding, and managing stakeholders´ demands in the project decision making is of utmost importance in order to ensure the success of an international project.

Today´s international projects are implemented in institutionally demanding environments and executed by coalitions that have differing interests, objectives and social-cultural backgrounds. Consequently, the managerial challenges in international projects are not purely technical; these challenges also arguably entail the management of the social, political and cultural aspects in the context of several stakeholders with differing socio-cultural backgrounds, goals and strategies. As open systems, international projects are subject to the impacts of a wider socio-political environment and the demands and pressures stemming from external stakeholders such as community groups, local residents, landowners, environmentalist, regulatory agencies, and local and national governments. Such stakeholders are actors in the projects environment that are not formal members of the project coalition but may affect or be affected by the project.

As the literature analysis (Aaltonen 2010: 67) demonstrates, research in the area of international projects is fragmented into many different research streams. In addition to traditional, technically-oriented project planning and control approaches, resent research has started addressing challenges that rise because international projects involve various stakeholders with diverse socio-cultural backgrounds and are implemented in institutionally challenging environments.

Today, there is an increasing tendency for external stakeholder groups to try to affect the implementation of international projects. Consequently, the risk of exogenous events coming from the project´s external stakeholder environment has risen. Furthermore, international projects have become more complex with regards to their project network structure. The complexity of project network system with many interdependent components complicates the management of external stakeholders even more and may create new types of stakeholder risks. Therefore, it is evident that there is a need for more research on the role of external stakeholders in international projects, argues Aaltonen (2010: 68)

According to Aaltonen (2010: 69) research on external stakeholder management in international projects contributes to various bodies of research concerned with the management of international projects. Overall, understanding the behavior of external project stakeholder increases our understanding of the management of the project dynamics that may result from the interventions of the external stakeholder environment.

International projects face a variety of pressures from their uncertain and complex external stakeholder environments. In order to reduce uncertainty, a project management team builds up interpretations about their environment by conducting stakeholder analysis. Project stakeholder analysis is a central component of stakeholder management. It is the process which project managers attempt to understand and read the project´s stakeholder environment in order to be able to determine the right type of action concerning different stakeholder, states Aaltonen (2011: 165-167).

According to Lund Jepsen and Eskerod (2009: 341) the main purpose of doing a stakeholder analysis is to enable the project manager to take action in relation to the stakeholders of the project and their interest in a timely manner. The results of the analysis constitute a basis for decisions, objectives, and plans for the project. To get the project property assigned and started, there is thus a need for doing a stakeholder analysis in the front end of the project. Building stakeholder analysis rests on two important assumptions (a) that the project manager can grasp the nature of the stakeholder coalition in terms of identification of important and not-so-important stakeholders, as well as characterize them on several dimensions, and (b) that the coalition of stakeholders is stable across the course of the project.

The study conducted by Aaltonen et al. (2010: 583) reveals the paradoxical nature of local stakeholders relationships in the context of international projects: whilst local stakeholder relationships generate unexpected events for the project due to differing practices, norms and values of the actors and by exposing the project to direct local institutional influences, local stakeholder relationships also enhance the project´s external adaptation by supporting its anchoring and legitimacy in the institutional environment and by providing crucial local knowledge. These are considerations that managers should take into account when making decisions about the use of local actors.

APM (2006: 18) suggests that project success is the satisfaction of stakeholder need and is measured by the success criteria as identified and agreed at the start of the project. Benefits management is the identification of the benefits at an organizational level and the monitoring and realization of those benefits. The sponsor may view success as the project having achieved stated benefits as defined in the business case. From the project manager´s perspective success may mean meeting agreed scope, time, cost and quality objectives as defined in the project management plan. *However, stakeholders will have differing views of the project´s success which must be taken into account.* For the project manager to understand what success is, success criteria must be agreed with stakeholders during the concept phase, but may be changed at any time in the project´s life cycle via change control.

Patanakul et al. (2016: 458) state that dealing with multiple parties is common in project management; however, multiple stakeholders who may affect the progress of the project in political, social, or financial ways are a unique characteristics of government projects. After project stakeholders are recognized, distinguishing the potential purpose and impact of each involved party is of vital importance for project performance. Although it may be difficult to identify agendas of multiple stakeholders, it can be advantageous to understand who is for or against the performance of the project. Considering the political environment and related parties, planning for and management of stakeholders becomes a crucial factor in government projects.

According to Patanakul et al. (2016: 458) alignment, collaboration, and communication among the stakeholders are issues to be addressed in every project. Multiple parties often are involved in government projects, including agencies, authorities, administrative personnel, and lobbyists. Project progress is dictated by not only alignment under political agendas but also formalized communication and collaboration channels. When government projects involve multiple agencies, forming cross-agency cooperation and establishing inter-agency agreements are of utmost importance.

Planning and coordination of suppliers and subcontractors are equally important and critical to keep the project on time and on budget as the impact could be significant to the overall project performance. Additionally, inefficient allocation of resources, underestimating project complexity and cost, competing management styles, and lack of leadership, can all contribute to poor performance. (Patanakul et al. 2016: 459)

3 PROJECT MANAGEMENT IN FOREIGN BUSINESS ENVIRONMENT

"A backhanded `V for victory` sign is an uncomplimentary gesture in Australia. In Brazil, the American `A-OK` sign is also offensive. These are lessons that some presidents, diplomats, and businesspeople have learned the hard way. Awareness of such cross-cultural subtleties can spell success or failure in international dealings, whether in diplomatic relations, general business, or the project arena (Dinsmore and Benitez Codas 2005: 399)."

Projects conducted in international settings share these above-mentioned sometimes embarrassing communications pitfalls and others as well, suggest Dinsmore and Benitez Codes (2005: 399). They are subject to cultural, bureaucratic, and logistical challenges just like conventional domestic projects are. In fact, project management approaches to international ventures include the same items common to domestic projects. Under both circumstances, successful project management calls for performing the basics of planning, organizing, and controlling.

According to Binder (2008: 1) in the project management literature one can find different types of projects, when comparing the number of organizations and locations involved in their implementation. In *traditional projects*, a large majority of the team members are working for the same organization and in a single location. *Distributed projects* involve team members working in many locations, and can also be called *international projects* when they include people located across country borders. *Virtual projects* are composed of team members dispersed geographically and working in different organizations. Project managers may face specific challenges on virtual projects as they need to balance different interests, company cultures and working practices, and most communications occur over a distance. International projects require the collaboration of people from different country culture and languages, sometimes with the added complexity of the locations over various time zones. Binder (2008: 1) addresses the combined challenges of international, distributed and virtual projects, being mainly dedicated to *global projects*. This novel category can be defined as a combination of virtual and international projects, which includes people from different organizations working in various countries across the globe.

Despite the belief that managerial tools and processes can be exported worldwide, a different reality is often experienced at the local workplace. Even within Europe, the transfer of managerial practices can take a long time. Implementation of a new management process can be subjected to avoidance, resistance and rejection. When this occurs, a manager may wonder why and seek the source of the problem, claims Bony (2010: 173). Managerial practices are both designed and implemented within defined political, institutional and social context. They interact with cooperation and coordination processes. Whereas the logic inherent to a practice is consistent with the context in which it has been elaborated, it may be at odds with the local context to which it is transferred. In which case, a manager will strive to reconcile the practice and context. He or she will benefit from knowledge about the underlying logics that govern such a situation.

According to Remington (2011: 179) many complex projects are complex because they cross national cultural boundaries. Leadership styles can reflect our national cultural backgrounds. Swedish culture tends to favor collaboration and Swedish project teams are known for taking a long time to reach agreed decisions. However, once they do agree they tend to move very quickly. Anyone who has worked in France will be aware of the need to include more social time in meetings, and the sacrosanct nature of the lunch hour and a half, not so important in Germany or even the UK. Those who have worked in the Middle East will know that the cultural perception of time in most Middle Eastern countries is very different, more organic and much more relaxed. It can be particularly infuriating to people from an Anglo-Saxon background who can be very conscious of deadlines and "being on time".

The influence of national culture (NC) on project management (PM) and specifically project planning is not well understood. Projects often comprise of people and organizations from different national cultures such as multicultural teams, foreign managers, and international partners. (Rees-Caldwell and Pinnington 2013: 212)

The challenges and pressure for organizations to deliver large-scale successful transnational projects are intense. Complexities such as cross-cultural stakeholders, socio-political environments and managerial philosophies increase the demand for organizations to be suitably equipped with the skills and knowhow to execute projects against required specifications. Project management as an organizational strategy and work design is itself culturally influenced. (Turner 2008: 821-822) It is probably true to say, based on various metrics such as the growth in project management training world-wide, that project management is becoming more recognized as a global management discipline. Whilst project management may be becoming mainstream in regions hitherto dominated by bureaucratic hierarchies (such as China, for example), this does not dilute the importance of having a range of skills, tools and techniques to manage the cultural interfaces of project stakeholders effectively.

Remington (2011: 182-183) states that as many complex projects involve international partners it is vital that this aspect be included in communications plan. Allowing the communication process to develop ad hoc is not an option! However, successful communication is as much to do with team members´ attitudes and expectations as anything else. Leaders need to communicate positive attitudes to their teams about other national cultures. More effective communication behavior will follow. These suggestions might help leaders to shift a team`s perception from alien to partner:

- *Assume the best*. Your international partners will generally want the same overall outcome for your project as you do. They may express themselves differently, outwardly demonstrate different levels of emotion and commitment to you but those differences are more likely cultural than motivational. It is often easy to forget that the person on the other end of the telephone finds you as alien as you find them.
- *Be interested*. The more you understand about the country, history, language, values systems and culture the better you will understand the individual and the way those individuals behave and react in situations. Learning about an international partner, particularly their native language, communicates that you are interested in them and seeking a positive working relationship of equals. As English has now become the dominated global language, English speakers can communicate arrogance based on the expectation that everyone should speak their language. This implicit assumption can subtly colour communications and produce offence.

- *Assume differences not similarities*. It is always helpful to assume that there will be differences rather than be surprised or disgusted by them. Assuming that there will be differences helps us become alert to them.
- *Be patient*. If you have ever tried to communicate in a language other than your native language you will understand how difficult and how exhausting it can be.
- *Clarify misunderstandings*. A mutually agreed approach for clarifying misunderstandings can be very useful. In some cultures direct questioning to clarify issues might cause embarrassment. Particularly if the other party does not have the answer on the spot, it might even cause offence. An approach that allows everyone to save face might be to table question for the next meeting. In other cultures it is acceptable and even expected to question anything you are unclear about in an open and direct manner.
- *Treat working with international partners like traveling*. It broadens the mind and can be fun! Getting to really know and understand your international partners is a rare privilege afforded to only a few.

(Remington 2011: 182-183)

According to Remington (2011: 183) working with other cultures requires respect. Respect requires leaders to go at least halfway. Making the effort to learn the local language speaks volumes!

Turner (2008: 829-830) suggests that at the international level, cultural diversity is being driven by a number of factors, including:

1. greater workplace mobility – such as found in the enlarged European Union – that offers project managers greater choice of project personnel
2. demographic change, particularly where working populations are growing, will also influence the degree of diversity in project team membership
3. new market opportunities increase the need for including team members with specific knowledge of foreign customer locations and profiles
4. outsourcing, off-shoring, and development of global supply chains mean greater diversity of cultures involved in project delivery
5. technological developments create infrastructures that enable projects to be run and managed using highly diversified virtual and distributed teams

It can be proposed, that project-based organizations could gain competitive advantage through proactively viewing cultural environments as new sources of creativity and innovation. Rather than allowing creative ideas and innovations to be transferred by "accident" or in a random way, it is proposed that organizations can gain substantial benefits by creating the right conditions for cultural influence to form part of the organization`s creative resource base. To exploit such opportunities, organizations need to develop internal corporate cultures that welcome national cultural influences. In this paradigm, the company does not stubbornly defend the status quo or seek to block external influences. Rather, the organization makes every effort to selectively absorb cultural influence, placing a high value on diverse thinking and behaviors. (Turner 2008: 829-830)

According to Turner (2008: 824-825) organizations face a new challenge – how to build organizations that can rapidly adapt their cultures to changing business environment. Many commentators on the development in global business trends suggest that the scale, pace and complexity of change is quickening. New markets may open up at short notice and technological developments are occurring rapidly, thus exposing laggards to a higher risk of failure. Project strategies will need to be ever more flexible in order to respond to change and influences. These strategies will need to be accompanied by cultural shifts. This gives rise to a project organization that has both organizational and managerial properties that enables it to move quickly –technically and culturally. The latter aspect can be described such a feature as the "culturally-fluent project organization". This is an organization that is aware of its own culture, knows what its culture should be to succeed, and has the capabilities for cultural change. The culturally-fluent organization will also recognize the cognitive linkages between the underpinning values, beliefs and ethics of a particular culture, the subsequent systems of work organization and management (including project management), and the resulting behaviors between organization/project stakeholders that an observer is likely to witness.

Cultural risk is significant risk to overseas projects. Any company, which wants to carry out or manage a project successfully in other country, should be able to know the culture of the host country clearly, suggest Li (2009: 194-195). When companies carry out overseas projects, they are normally involved in a temporary project team that people come from different nationalities. Different culture, different language, different backgrounds and different perspective will make it extremely hard to keep good communication between team players. To mitigate cultural risk, foreigners should understand and respect local culture. Appointing overseas project manager who is good at cross-culture management and has previous working experience in host country are also useful.

According to Dinsmore and Benitez Codas (2005: 400-401) the primary factors in cross-cultural settings that call for special attention and an international approach are: functional redundancy, political factors, the expatriate way of life, language and culture, additional risk factors, supply difficulties, and local laws and legislation. These are the subjects that require special care to ensure that the internationally set projects meet its targeted goals.

- **Functional redundancy** means the duplication or overlap of certain functions or activities. This may be necessary because of contractual agreements involving technology transfer requiring “national counterparts”. Language or organizational complexity of the project may also be responsible for creating functional redundancy. Special attention is called for, therefore, in managing the project functions of human resources and communication.
- **Political factors** in international projects are a strong influence and are plagued with countless unknowns. Aside from fluctuations in international politics, project professionals are faced with the subtleties of local politics, which often place major roadblocks in the pathway of attaining project success.
- **The expatriate way of life** refers to the habits and expectations of those parties who are transferred to a host country. This includes the way of thinking and the physical and psychological needs of those people temporary living in a strange land with different customs and ways of life.
- **Language and culture** include the system of spoken, written, and other social forms of communication.
- **Additional risk factors** may include personal risks such as kidnaping, local epidemics, and faulty medical care. Terrorism and local insurgencies are also critical risk factors in some settings. Rapid swings in political and economic

situations, or peculiar local weather or geology, are also potential uncertainties.

- **Supply difficulties** encompass all the contracting, procurement, and logistical challenges that must be faced on the project. *Customs* presents major problem in many project settings. A new concept in logistics may need to be pioneered for a given project. Contracting and supply on international projects normally calls for an “overkill” effort, since ordinary domestic approaches are normally inadequate. This usually requires highly qualified personnel and some partially redundant management systems heavily laced with follow-up procedures. Heavy emphasis is needed in the areas of contracting and supply.
- **Local laws and legislation** affects the way much of business is done on international projects. They may even affect personal habits (such as abstaining from drinking alcoholic beverages in Muslim countries). Here the key is awareness and education so that each person is familiar with whatever laws are applicable to his or hers area.

In terms of classic project management, special emphasis is required on international projects in the areas of communications, contracting and supply, human resources, and risk. Since all of the project management areas – including the basic areas of managing scope, schedule, cost, and quality – are interconnected (a communications breakdown affects quality, for instance), extra diligence is called for in managing communications, contracting and supply, human resources, and risk. It must be assumed that a conventional approach to managing these areas will be inadequate for international projects. (Dinsmore and Benitez Codas 2005: 400-401)

Change and complexity in the external environment have major implications for organization design and management action, state Daft (2010: 244). Organizations are open social systems. Most are involved with hundreds of external elements. Important environmental sectors with which organizations deal are the industry, raw materials, human resources, financial resources, market, technology, economic conditions, government, sociocultural, and international. An organization in a certain environment will be managed and controlled differently from an organization in an uncertain environment with respect to positions and departments, organizational differentiation and integration, control processes, and future planning and forecasting. Organizations need to have the right fit between internal structure and the external environment. (Daft 2010: 228)

Business and also nonprofit organizations today need greater fluidity and adaptability. Many managers are redesigning their companies towards something called the learning organization. Daft (2010: 30) defines the learning organization as being an organization that promotes communication and collaboration so that everyone is engaged in identifying and solving problems, enabling the organization to continuously experiment, improve, and increase its capability.

Remington (2011: 185-186) suggests that cultural differences exist between teams, departments, organizations, nations and generations. Culture develops over time and is particularly hard to dislodge or change. Its attributes or `climate` expresses deeply held and shared values. When embarking on a new project involving other departments, organizations or nations, it is better to expect cultural differences rather than to assume that people will just work together. However, cultural tensions are significantly diminished if a leader approaches a new culture with an open mind and encourages teams to build strong trusting relationships from the very beginning:

- Culture is a deep concept and develops over a long period of time - it has history and it is underpinned by deeply held values (why we do things that way).
- The strong historical roots make cultural mores difficult, if not impossible, to change.
- Projects are relative short term, often too short to be described as having a culture, but a `climate` does develop, supported by artifacts (the way we do things).
- It is important that project leaders take account of potential cultural differences because inability to manage cultural interfaces can itself contribute to project complexity.
- National cultural influences will, in some cases, be moderated by organizational cultures and practices. This is becoming more and more apparent as nations become multi-cultural.
- At the very beginning of a complex programme or project, leaders need to assess potential cultural boundaries and differences between teams, between

organizations and national boundaries, in order to make sure cultural barriers do not get in the way of progress and teams are supported throughout the project.

- Generational cultural differences can give rise to tensions in the short term if not addressed. Research indicates that different generations exhibit different motivations and values regarding work
- Global projects might benefit in future from enhanced understanding of other cultures from living in increasingly pluralistic societies and also through globally accessible norms, spread by movies, music, sport and fashion, supplanting traditional national cultural mores.

(Remington 2011: 185-186)

4 RUSSIAN BUSINESS ENVIRONMENT

*"The collapse of the Soviet Union in 1991 introduced 15 new independent states (NIS) at the global marketplace. Post-socialist institutional development and transition policies varied considerably among the NIS, reflecting in the business environment and challenges faced by foreign entrants. Some of the former Soviet republics, such as Estonia, took a direct course "to return to the Europe" and rapidly modelled their formal institutions in a view of the coming European Union (EU) membership. In others, such as Russia, the institutional development has been slower and less-oriented (*Heliste *et al. 2008: 66)."*

4.1 Russian business environment in general

Aidis and Adachi (2007: 391) state that the economic and political transformation of the Russian Federation into an independent nation has had mixed results. On the one hand, a rapid modernisation has taken place in the larger urban areas providing citizens with lifestyle possibilities similar to those found in advanced western countries. On the other hand, income inequality has dramatically increased providing evidence that the new economic benefits are not spread equally. This leads to striking economic disparities amongst individuals as well as between regions. As the world's largest country rich in natural resources, the Russian Federation wields a considerable amount of influence in the global community.

The Russian economy is heavily dependent on its natural resources. According to Grigorev and Kriukov (2010: 27) in the past two decades, Russia has played a unique role in supplying the international economy with energy resources. The scale of Russian production and export of hydrocarbons significantly exceeds the country's domestic need. Russia produces about 10 – 11.5 per cent of the world's primary energy, which is five times more than its shares of world GDP and population (about 2.3 per cent). This is four times the amount that Germany consumes (approximately 2.8 per cent of the world`s primary energy): half is exported, and half is consumed by Russia itself. In addition, Russia does not carry out sufficiently advanced processing of raw material, which yields enormous profits to EU companies (the best-known examples are residual fuel oil and ethane).

Russia is one of the leading suppliers of oil and gas in the world economy. At the same time, industrial diversification is not highly developed. For example, two third of total exports and more than 50 % of the budget revenues depend on oil and gas. The strong reliance on commodity exports makes the country extremely vulnerable to shifts in global prices. (Dreger et al. 2015: 6)

The Russian economy can be described to be an economy in transition. According to Morrison (2009: 42) the *transition economy* refers to the countries moving from communist or state-planned systems to market-based systems. Many have become industrialized during communism, but they overlap with developing countries in many respects, as they are now focusing on economic growth to generate the wealth needed to bring the prosperity of the developed countries.

Morrison (2009: 43) states also that a further category which is often used is the *emerging economy or market*. This term refers to fast-growing developing and transition economies, which attract foreign investors and offer prospects of expanding consumer markets. The main emerging markets are India (developing), Brazil (developing), *Russia (transition)*, and China (both developing and transition). These countries are referred to as the BRIC countries (Morrison 2009: 508-509)

The economy of the Russian Federation has almost doubled during the last ten years. Together with other rapidly developing countries, Russia is changing the balance of the global economy (Ollus 2008: 11). In 2007 the country was 11th biggest economy in the world (Ollus 2008: 11)

According to Berglof and Lehman (2009: 198) up to about mid 2008 the Russian economy experienced an impressive growth spurt. After a disappointing 1990s, and the deep recession of 1998, annual growth rates between 2000 and 2007 averaged about seven per cent. Since then the Russian financial system has been impacted by the retrenchment of international investors from emerging markets, and a severe liquidity and confidence crisis took hold, dimming growth prospects for the medium term future. Many factors that supported Russia's growth in the years 2000 to 2008 are now much diminished. These factors included the substantial boost from the terms of trade, the very favourable environment in international capital markets, or the implicit subsidy to Russian industry through discounted domestic energy prices, and the benefits of slack capacity following the 1998 recession.

Berglof and Lehman (2009: 205-206) further state that the turmoil in global credit markets since mid-2007 has highlighted many of the issues confronting the Russian financial system. Many of the larger private banks have come under pressure as access to international capital markets has radically decreased. The squeeze on the liquidity of the Russian banking system prompted swift and largely effective policy measures, though these actions also favoured state banks which traditionally have privileged access to liquidity. The credit squeeze may lead to a restructuring of the banking sector with banks with support by the state or foreign parents taking over institutions heavily dependent on external borrowing. More long-term, the liquidity problems also reflect insufficient credibility of the country’s key regulatory and supervisory institutions. This credibility issue, in term, is caused by a combination of insufficient political backing and strong vested interests. With increasing inflation and a slowdown in credit expansion the tide may again turn against these institutions and financial reform in general. Such a backlash would be highly unfortunate as much regulatory reform remains outstanding before the banking sector can measure up to international standards.

According to Berglof and Lehman (2009: 205-206) former President Medvedev at the beginning of his term in 2008 set out an ambitious vision of Moscow as an international financial centre. The details of this initiative have yet to be worked out, but the lofty words appear to be backed up by a very specific list of incremental improvements of the Russian financial system, particularly its financial markets. The notion that Russia would become a major international financial centre attracting business away from London and New York seems remote and certainly would require a broad range of reforms of the regulatory and supervisory framework, but more importantly deep changes in the overall business environment in Russia. Yet, whether capable of attracting international business or not, such improvements are necessary to ensure long-term sustainable economic growth in Russia.

According to Puffer and McCarthy (2011: 21-22) as a major transition economy, Russia has the potential to be an important player in the future of the global economy. This potential, however, has yet to be realized. It is important to understand Russia since it both is a significant economic power in the world and has the potential to be an even greater player. Russia`s household disposable income is 30% higher than Brazil`s, 10 times that of India, and four times that of China. With its highly educated population, especially in math, engineering, and science, the country has attracted high-tech giants including Intel, Microsoft, Cisco Systems, Hewlett Packard, and Sun Microsystems as well as numerous industrial and consumer goods companies including Ford, Kraft Foods, Nestlé, Danone, Unilever, Carrefour, Ikea, John Deere, and many of the largest Western financial service companies. Russia has the potential to be an energy giant, as it is number one in the world in gas reserves and number two in oil reserves; the nation already supplies 25% of Europe`s energy. It is the largest landmass in the world, and its vast natural resources plus its other endowments generate a GDP of around $1 trillion, which places Russia among the G8 industrialized nations.

One special feature in Russian economy is the role of oligarchs. A relatively small number of Russian industrial tycoons, or “oligarchs”, control a substantial share of Russia´s economy state Guriev and Rachinsky (2005: 131). Both negative and positive stereotypes about Russian oligarchs are true. Russia´s oligarchs do control a substantial part of the economy including natural resources industries. The concentration of ownership in modern Russia is probably higher than in other countries. Oligarchs seem to run their empires more efficiently than other Russian owners. While the relative weight of their firms in Russian economy is huge, they do not seem to be excessively large by the standards of the global economy where most of them are operating. However, a majority of the Russian population deems their property rights illegitimate, which creates a fundamental problem for building a democratic and prosperous Russia. This problem is neither insurmountable, nor unique to Russia. Quite a few countries have experienced a period of high ownership concentration, but then eventually moved beyond it. (Guriev and Rachinsky 2005: 148)

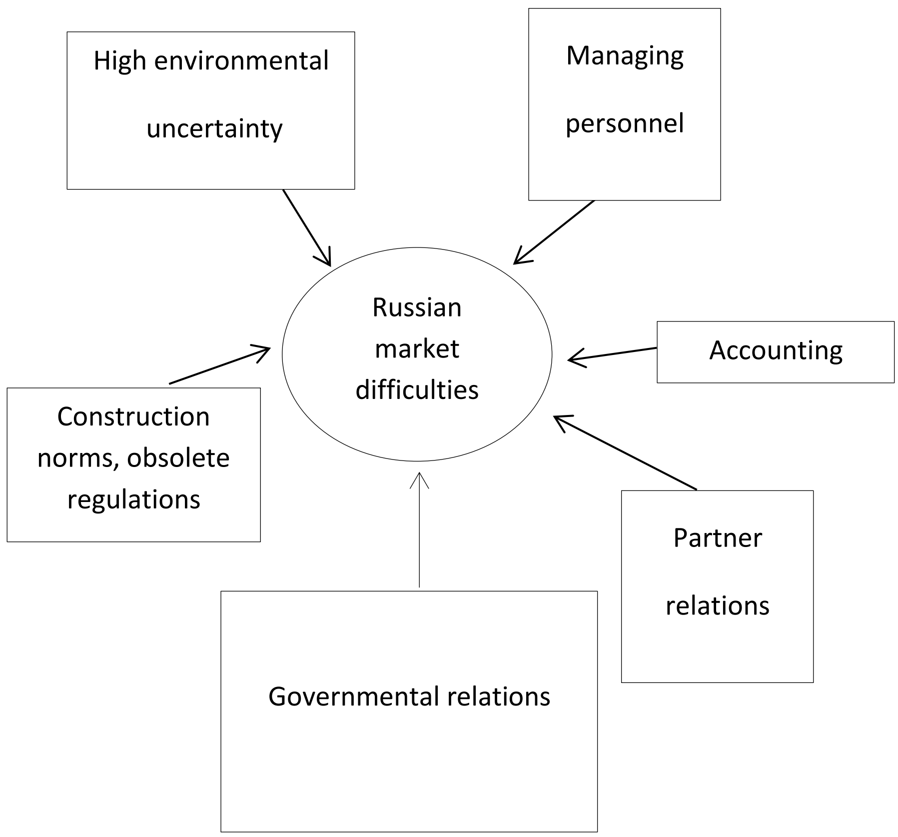
An unpleasant implication of the analysis, conducted by Guriev and Rachinsky (2005: 148), is that the development of democracy in Russia may take a long time. Countries with concentrated ownership have lived with “1 ½ party system” for decades. A real competition between strong political parties is more likely to emerge when financial development, competition policies and openness lower entry barriers and promote the rise of middle class. Neither oligarchs nor the bureaucracy seem to be interested in implementing these policies in Russia anytime soon.

4.2 Special features of Russia business environment

Puffer and McCarthy (2011: 22) state that one of the defining characteristics of Russian business is the weak legitimacy of formal institutions, which fosters dependence on informal institutions such as culture and ethics. This combination of environmental influences severely limits the range of viable options in bridging mechanisms such as corporate governance and business strategies. Within business organizations, organizational actors are affected by these realities and restrict their behaviors to familiar patterns in key processes such as leadership and knowledge management. These behavioral patterns manifest themselves in a perpetuation of conditions in the bridging mechanisms such as non-transparency in corporate governance and limited competitiveness in business strategies. The influence from such bridging mechanisms in turn perpetuate environmental circumstances including the formal institutional void and dependence on informal cultural-cognitive institutions on the part of business managers.

In the figure below, the difficulties of Russian business environment are shown. All these difficulties can be found in other markets too, but in Russia their impact on companies is usually stronger and more unexpected and unforeseeable.

Figure 5 Russian market difficulties (STROI-networks 2010: 31)



4.2.1 Safety and status of Foreign Direct Investments/ large projects in present day Russia

According to Feng et al. (2009: 91) Russia has only recently implemented a long-term strategy to attract foreign direct investments. If Russia is to continue to draw high levels of FDI, it must convince investors that it is serious about implementing the necessary effective reforms and, once they are implemented, that the reforms are working. This will necessary involve a credible, transparent, and consistent reform agenda, steadily and predictably implemented.

4.2.2 Corruption in Russia

Transparency International (TI) has chosen a clear and focused definition of the term: Corruption is operationally defined as the abuse of entrusted power for private gain. TI further differentiates between "according to rule" corruption and "against the rule" corruption. Facilitation payments, where a bribe is paid to receive preferential treatment for something that the bribe receiver is required to do by law, constitute the former. The latter, on the other hand, is a bribe paid to obtain services the bribe receiver is prohibited from providing (TI 2011).

Swamy (2011: 39) claims that corruption can be classified as being either democratic corruption or hierarchical/anarchical corruption. The democratic corruption refers to illegal payment by the people, of the people and for the people. The latter term relates to bribery which must be compulsorily paid to get – political party-interested-cum-social utility – work, devoid of prudent financial management considerations, accomplished/executed with the blessings of the political party (Government) in power through the chain of middlemen (who may not belong to any political party) acting as agents, money laundering, fraud and allied issues are important issues and which have caused government collapse/instability, have received scanty analytical treatment by financial economists.

Pomerantz et al. (2012: 1) state that a survey released in late 2010 reported that one in four Russians had paid at least one bribe during the previous year, and the watchdog group Transparency International ranks Russia 154th among the 178 countries on its Corruption Perception Index. The culture of corruption in Russia has deep historical roots extending back through the Soviet period into the Czarist era. Russia´s adoption of democracy, unfortunately, did nothing to reverse the age-old ´tradition´ of paying bribes in order to get business done. If anything, Russia has become increasingly corrupt.

According to Belousova et al. (2011: 5-9) economic prosperity, population, market competition and urbanization are significant determinants of Russian corruption. The use of alternative corruption measures reveals that economic prosperity and population have a largely similar impact on corruption perceptions and corruption incidence but however there are significant differences in the effects of competition and urbanization. Higher population seems to increase both corruption incidence and perception, although the effect is non-linear. It is interesting that variables relating to the scope of government activities at the regional level do not have statistically effects on corruption. Another noteworthy finding is that in Moscow and St Petersburg, the two main seats of political and economic power in Russia, the perception of corruption is lower, while the actual incidence of corruption is higher than elsewhere. It may be that wealthier people in the two largest cities do not perceive corruption as one of their key problems, while e.g. businesses are required to pay more bribes in these two cities than elsewhere. Urbanization reduces corruption perceptions, but not incidence. People in larger cities may find it harder to track the actions of other citizens as well as civil servants. Finally, the effects of competition in the marketplace are different on perceived versus actual corruption. Having more companies per capita increases corruption perception, perhaps because people perceive companies to be competing for favours vis-á-vis the public sector. However, this effect does not show up in the data on the incidence of actual corruption.

According to Political Risk Services (2011: 8) both Russian and foreign businesses frequently complain about so-called “raiding” (“reiderstvo”), a practice which refers to the criminal takeover of a business through corruptly obtained legal documents. Raids are often carried out by professional raiders, sometimes working in tandem with corrupt officials and former employees or business partners of the victim company. Raids can be difficult to protect against as they rely on legal documents and frequently result in the victim being tied up in litigation for extended periods of time while the assets are transferred through a series of shell companies to an ostensible good faith purchaser. To minimize the risk of such attacks, investors are urged to vet local partners, review all business documents and make sure that documents are properly secured.

4.2.3 Political forces and democracy

It can be anticipated that the weaker foreign business influence inside Russia will get, the less open Russia becomes towards the international community. The less open Russia turns, the slower its politico-economic modernization becomes. The slower the country is able to modernize itself, the more natural resources Russia has to put into its industrial system to maintain the consumption patterns learned in the early 21st century. Political risks materialize for foreign firms to their full extend, if Russia has not managed to modernize its industrial system, when the natural resources have been used in those regions, where they can commercially be exploited. This way Liuhto (2010: 142) summarizes why the discussion on the political risks in Russia is relevant.

Russia is still developing democracy and its party system has not found its final form. An overwhelming concentration of power and a lack of genuine political debate prevail in Russia. Political parties play a secondary role, whereas the political limelights are occupied by the key political figures, who do not always represent the interests of their electorate but rather the interest of the state: be it that of the presidential administration, the government or some of the many security-related organizations. This elite repression does not exist in a large scale, but the prolonged hegemony of the ruling party (United Russia) may create situation where real political alternatives are no longer available (Liuhto, 2010: 143)

Vladimir Putin walked away with year 2011` presidential election, garnering 64% of the vote. He appointed the former President Dmitri Medvedev as the prime minister. In 2011 Putin, at that time the prime minister, commissioned a group of Russia`s leading liberal economists to come up with a strategy for the next presidential term. The “Strategy 2020” outlines preconditions for a new type of economic growth to replace Russia`s resource-based economy. The proposals are quite radical, calling across-the-board liberalization to allow markets to function normally. Another important area of emphasis is retaining and developing human capital, an area where experts say Russia significantly lags most advanced countries. For example, the healthcare system, as well as social, housing and environmental policy must be reformed to meet the needs of modern society. The emergence of an in-the-know middle class is adding to the pressure on the leadership to act. The concrete proposals of the Strategy 2020 may not be implemented as such, but they can have an impact on policy formation. (BOFIT Weekly 10/2012)

On the micro level, the governmental policies have severe affects, claim Aidis and Adachi (2007: 408). For example the existence of multiple federal and governmental inspection agencies (such as fire, health and sanitation) with independent powers to inspect businesses at any form, is a major barrier for firm survival in terms of both time and cost. The impact of inspection agencies is intensified due to weak regulatory environment (i.e. the fact that regulations and laws are applied selectively and random) and that there exists no limit to the frequency or duration of inspections. (Aidis and Adachi 2007: 408)

Fey and Shekshnia (2008: 26) state that since the times of the Kiev Rus, the law has not been separated from the person in power in Russia. Even though the legal institutions and the rule of law have significantly improved over the last decade, government and government agencies continue to have significant arbitrary power that can help or hurt one´s business. This arbitrary power applies both to the highest and lowest echelons; the local fire inspector can be as painful as a federal minister.

According to Vituhnovskaja (2006: 122-123) Russia has been traditionally very centralized country, where the power of the rulers has been extremely strong. Really democratic system has never been created in Russia, and the power has always been rather authoritarian. This is the reason why the relation between the rulers and the common people has been – and still is – constructed according to patriarchal model: the rulers are "fathers" of the country and the common people and the common people of Russia are "children", which need to be led and controlled. The alienation between the rulers and the common people is typical for the Russian society. The rulers´ self-assurance and lack of responsibility towards the common people create the atmosphere of total irresponsibility of the Russian rulers. Among the Russian bureaucrats prevail the viewpoint that the common people exist for the state and rulers and not for the other way round. Due to this, the attitude of common people is respectively negative – the state authority is not trusted and no help from it, is not expected.

As far as Russia is concerned, the process of intense political change is far from over and a number of domestic and foreign policy challenges remain unresolved. The fundamental character of the regime remains contested, with the partisans of liberal democracy challenged by those with more conservative if not outright authoritarian inclinations, while in international affairs Russia´s relations with the West are at best strained and at worst openly hostile. These are not so much policy issues as fundamental epistemological choices, dealing with issues of national self-identity and global security, and this why Russia remains transitional – stuck between various paths of development with no clear answers on the one that will be chosen. (Sakwa 2012: 231)

4.2.4 Russian legal system and laws

"Legal awareness provides project management professionals with an understanding of the relevant legal duties, rights and processes that should be applied to projects. It includes an appreciation of the potential causes of claims, disputes (and the means of resolving them), liabilities, breaches of contract and the legal basis of industrial relations. This awareness entails knowing when to seek appropriate legal advice. (APM 2006: 76)"

Grisham (2011: 31) suggests that on international projects, it is critical to understand the laws and regulations of all the countries where work is performed and for each link in the global value chain. International legal systems abound, and depending on the project`s dispersion and complexity, full-time legal guidance may be required. At a bare minimum, an international project manager must understand which legal systems are included in the project and the basic differences between them. He or she also must know the governing law of the contract(s) and be aware of any areas of conflict among laws. Contracts for international projects themselves generally consist of special conditions, general conditions, and technical provisions. The special provisions deal with the particular requirement of a specific project, whereas the general conditions generally establish the basic legal and procedural rules of the contract. The general conditions normally address such issues as termination, insurance, payments, bonds, governing laws, indemnity, project management requirements, dispute resolution, and the like. Normally both special and general conditions are based on the prevailing laws in the country where the product is being provided or where the customer`s procurement operation is based.

Political Risk Services (2011: 3) state that the legal system in Russia remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements of other regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, continue to be complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

According to O`Connor (2011: 1011-1012) the Russian legal system is a civil (code) system which provides judicial review of statutory law. The civil system of law, typical in much of the non-British-influenced part of the Western world, does not allow for law to be made in the courtroom but only by statute, and previous judicial decisions by themselves cannot be cited as precedent for subsequent decisions. Judicial review is designed to assure that the laws themselves are consistent with the thrust of the code in which they are embodied. Thus, a law may be declared unconstitutional by the appropriate court, but the interpretation of law as to the meaning is reserved solely to the Supreme Court of the Federation. The Russian judiciary is composed of three parts: first, there is the regular court system (the courts of general jurisdiction) with its capstone being the Supreme Court; second, there are the courts of arbitration capped by the Supreme Court of Arbitration; and finally, there is the Constitutional Court, a single unit with no other court in its ambit. Each of these three elements of the judiciary has its own subject-matter jurisdiction.

O`Connor (2011: 1012) states that the Russian court of arbitration handle disputes between business entities. The Supreme Court of Arbitration is the highest court of appeal in this area of law. If, however, a legal dispute involves a business entity and at least one private citizen who are not involved in the business activities that gave rise to the dispute, then the court of general jurisdiction are responsible for the adjudication.

Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing, suggest Political Risk Services (2012: 9). Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. But on the other hand a law enacted in late 2008 as part of (former) President Medvedev`s anti-corruption initiative requires that, beginning in April 2010, judges must disclose their incomes, real estate assets, and other kind of property that they and their spouses and minor children own.

One special characteristic of Russian national character is weak sense of justice, lack of respect for the laws and regulations. The common Russian people got accustomed to it that the law is the stooge of the rulers. There is popular proverb in Russia: "The law is like pole, to which direction it is turned, there it goes." (*Zakon tsto dyslo – kuda povernjos, tuda i vyslo*). It has become established Russian custom that whenever the common people have opportunity not to obey the rules and laws, then they do not obey them. If it is possible to avoid paying taxes, than Russian will do that with a clear conscience: Or if the militia do not see, the traffic regulations can be ignored. *The Russian morality is not based on the law, it is based on following the fairness and equity.* (Vituhnovskaja 2006: 124)

Nystinen-Haarala (2015: 98) states that in addition to laws, also contractual usage is very complicated in Russia. This originates both from the legacy of socialistic system and bureaucracy that passes down already from the times of the Peter the Great. When contracts were made in the state administration during the Soviet Union era, they were governed by administrative culture and system, not the contractual culture created by the business life. Requirements of complex competence and authorization regulations as well as round official stamps and negotiation memorandums descend from those times. The merest issue or decision requires the permission of the manager and issues must follow the correct and acceptable order. The contracts are not written between the contracting parties but they are made as a proof for the Customs, tax authorities and other controlling authorities.

4.2.5 Networks in Russia

"*Ruka ruku moiyet" ('One hand washes the other')* – Russian proverb

According to Michailova and Worm (2003: 509) networking is a complex phenomenon, which can be approach meaningfully only in relation to a particular economic, political, social, historical, and cultural context. The actions of the members of a particular network are embedded in the wider structure of relations in which network activities are both a medium and an outcome. Due to Western (US/West European) dominance in business research, there has been less focus on personal networks than organizational networks.

*"There is no unified, agreed meaning of blat and term cannot easily be translated into English (*Michailova and Worm 2003: 509)

Michailova and Worm (2003: 518) argue that in order to ensure financial success, Western business people must be familiar with and sometimes play the game of *blat*. This can be done by incorporating elements of *blat* in Western business strategies in Russia. In particular, it seems that relationships with official authorities often require *blat*. However MNCs should be somewhat cautious about using *blat*, as it has become more materialized and can be perceived as a way of corrupting or indicating that attitudes have not changed since socialism, though the concept of corruption is defined and perceived differently in different cultures. Western business people should be aware of the increasingly negative connotation of *blat* in particular in relations to private entrepreneurs. If they choose to engage in *blat* activities, it is preferable to keep these activities at a dyadic level and limit their *blat* connections to officials they know well. The character of criminal activities means that Western business people should in many instances avoid becoming entangled in *blat* activities, although *blat* should not be equated with bribery. In the State apparatus and certain more traditional sectors of the business community *blat* is still viewed differently and more human than bribery and corruption. Western business people should be aware of the importance of *blat* to Russian employees and managers, and they should not try to destroy existing relationships, as their destruction will often be counterproductive. Expatriates should not try to enter *blat* relations themselves, but be supportive of existing *blat* relations.

Building and maintaining relationships with governmental bodies in Russia implies dealing with people who probably have a different set of values and behavioural standards from global business executives. Some companies successfully delegate building such relationships to their Russian managers, but this strategy works only when the latter have an important status in the organization. In Russia, a country with *high power distance*, many government officials expect to deal with the number one in the organization. If a company does not yet Russian CEO, expatriate company leaders should exercise perseverance, an important competency of a global leader and try to engage in such government relationship building with support from their local staff. Expatriate company leaders should be patient and look at this as a development opportunity for themselves. (Fey and Shekshnia 2008: 27)

According to Fey and Shekshnia (2008: 26) to be successful in Russia foreign companies have to build and maintain relationships with all levels of administrative power. These relationships allow several goals to be achieved – to provide information, to facilitate development, to receive required authorizations, and to protect the company from unpleasant surprises. Developing such relationships does not necessarily imply making cash payments to persons in power or to their representatives, even though recently the central government is increasingly using the tactic of “requesting” “voluntary business contributions” to diverse funds such as the ones for St. Petersburg’s restoration or anti-terrorist fight. Large Russian companies, however, suffer more than foreign subsidiaries from this practice.

4.2.6 Logistics in Russia

Logistics management activities typically include inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventor , supply/demand planning, and management of third party logistics service providers. It is an integrating function, which coordinates and optimizes all logistics activities, as well as integrates logistics activities with other functions including marketing, sales manufacturing, finance, and information technology. (CSCMP 2013)

The demand for freight transportation is based upon the demand for a product in a given location. Fright is generally not transported to a location unless a need for the product exists at the location. Thus, the demand for freight transportation is derived from the customer demand for the product. (Bardi et al. 2006: 36) The transportation providers can be divided up motor carriers, railroads, air carriers, water carriers and pipelines as well as intermodal and special carriers. (Bardi et al. 2006: 36)

Russia is a geographically vast market, stretching over nine time zones. There are significant geographical disparities in the wealth distribution. Undeveloped infrastructure causes logistical challenges especially outside of major cities. (KPMG 2012) Bureaucratic hurdles and a poor infrastructure complicate logistics processes in Russia just as a lack of competition, insufficient transparency and limited logistics know-how do. However, Russia intends to become a logistics hub between Asia and Europe (DHL Logistik 2008)

According to BOFIT Weekly (29/2012) Russian railways suffer effects of long-term under-investment. The annual report 2011 of Russian Railways reveals that the average rate of travel of freight cars between stations slowed in 2011 to just 37 kilometers an hour. If time for loading and unloading cars at stations is added in, the average rail freight speed was just 10 kilometers an hour. Russian Railways blamed the slowdown on its aging stock of locomotives and poor infrastructure that the state rail company is itself obliged to maintain. The situation is further complicated by the approximately 2000 private operators now handling nearly all of the country`s rail freight shipping. Russia`s rail system, created during the Soviet era, is based on the assumption of a single operator for the entire country. The use of Russian rolling stock is relatively inefficient: Russia has far more rolling stock that, say, the US, which has a more extensive rail network and transports a larger volume of freight.

4.2.7 Banking and Insurance sectors and financing reporting system

"*The Russian banking and insurance sectors are extremely weak. Since central planning offered no role to active banking, or to insurance outside very limited areas, they have had to be created de novo since 1991 (Dyker, 2004: 8).*"

Fungacova and Jakubik (2013: 89) state that despite the large number of banks operating in Russia (995 at the end of 2010) and significant growth during the past decade, Russia´s banking sector remains small and underdeveloped compared to economies of similar size. Indeed, banking sector assets only correspondent to about 75% of GDP and only 40% of Russians have a bank account. Unlike most countries in Central and Eastern Europe, no major bank privatization has occurred in Russia. Its banking sector remains predominantly state-controlled to this day.

Like in other economies, Russia saw state control increase during the recent financial crisis. However, at the start of the crisis, state-controlled banks already accounted for over half of the Russian banking sector, and all of the county´s five largest banks were state-controlled. These big banks acquired other banks during the crisis, further strengthening their market positions. Foreign participation in the Russian banking sector remains low, but has been increasing over the years (Fungacova and Jakubik, 2013: 89)

According to (BOFIT Weekly 1/2016) the troubles of the Russian real economy are beginning to manifest in the banking sector performance. While Russian banks overall are still profitable, the number of loss-making banks rose notably in the first eleven months of the 2015, with nearly 30% of banks operating in the red. Growth in delinquent payments and credit losses are one factor in this shift. (BOFIT Weekly 1/2016)

The Central Bank of Russia has increased its efforts to clean up the banking sector. Since June 2013, over 200 credit institutions have lost their licenses (93 in 2015). Most of the banks have been covered by the deposit insurance scheme. Consolidation of the banking sector continues, and today Russia´s 20 largest banks hold about 75% of all banking sector assets. At the beginning of December 2015, 740 banks operated in Russia. (BOFIT Weekly 1/2016)

One of the distinctive features of the Russian banking sector is the substantial role played by the state. While state-controlled banks are tacitly assured of being bailed out in the event of financial distress, this tells us nothing about how vulnerable these banks actually are to macroeconomic downturns suggest Fungacova and Jakubik (2013: 98-100).

According to Honkanen (2011: 124) insurance markets and insurance culture are rather undeveloped in Russia, since the way of thinking in Russian society is still somewhat based on Soviet style scheme of things. In Soviet Union, insurances were not considered as risk management of assets and property, since damages for assets and property were covered for the state or the losses were just suffered without compensation. According to civilian legislation of Russian Federation companies and private persons are under an obligation to cover for damages that they have caused for third parties. Regardless of that, only a small share of the assets and property that is connected to business is covered for in Russia. The foreign subsidiary companies operating in Russia make an exception by contrast, since they mainly follow the insurance policy of their parent companies.

Russian accounting and book-keeping deviate from the western ones, which causes difficulties amongst other things in reporting to foreign parent companies. In Russia, there is objectives to develop their accounting standards to correspond western accounting standards at least in the case of international large companies. (Honkanen 2011: 124)

According to Oksana (2013: 526) in 2011 the Russian government signed off on the International Financial Reporting Standards (IFRS) adoption procedure for gradual transition from the Russian Accounting Standards (RAS) to IFRS by 2015. The commitment to adopt IFRS in Russia is largely explained by the country´s unprecedented need for FDIs.

4.2.8 Cultural aspects in Russian business environment

"Cultural factors exert the major influence on consumer behavior as it is the most fundamental determinant of a person´s wants and behavior. Since so much of success in international marketing depends upon an understanding of culture, one might ask,

what is it? Culture is learned and, as such, is communicated from one generation to another. It is shared by members of a society and the behavioral traits of which it is comprised of are manifested in a society´s institutions and artifacts (Albaum et al. 1994: 53).

According to Albaum et al. (1994: 53) to understand a culture one must understand its origins, history, structure and functioning; how its artifacts and institutions developed to cope with the environment; and the effects of the geographical environment on the culture, acculturation and assimilation. Culture undergoes change over time, with change typically being slow to occur. Sometimes `rapid` change occur. These, however, often are not `natural` but are due to outside pressures, for example, from government. Albaum et al. (1994: 53) emphasize that culture provides norms for the behavior of buyers, consumers, and sellers, and these norms control behavior in ways that are not always well understood.

"This is Russia – things are different here" is a magical statement that every foreign executive daring to operate in Russia hears every day if not every hour. Employees, suppliers, customers, government officials, and consultants repeat that a different business logic rules in Russia and thus doing business there requires a very special approach (Fey and Shekshinia 2008: 13). Fey and Shekshinia (2008: 13-14) do agree with the first part of above conclusion – that Russia is a distinct market with specific rules of which one need to be aware. However their research shows that foreign companies trying to create Russian-specific operating models by copying what local businesses do often fail, while foreign companies that intelligently apply (with some local adaption) the business models that have helped them succeed elsewhere more often flourish.

To be sure, it is important to demonstrate awareness of and respect for local rules and customs in dealing with customers, suppliers, and employees. By this awareness Fey and Shekshinia (2008: 15-16) do not mean simply speaking Russian, drinking vodka, or going to the sauna (all of which can be useful), but rather showing interest in and understanding local people and their way of life and incorporating this knowledge into one`s businesses´ operational model.

According to Khalil (2012: 31) Hofstede´s cultural dimensions are used for analysis of cultural beliefs and attitudes in a society. Decisions for expanding business to potential emerging markets need to be made in the light of the cultural differences that the firms can tolerate and manage.

Khali has compared Hofstede´s different cultural dimensions between different BRICS countries and a mature market country being as USA. (Khalil 2012: 28-42)

Hofstede`s dimensions used in Khalil´s research are as follows:

PDI: Power distance can be defined as *the extent to which the less powerful members of institutions and organizations with in a country expect and accept that power is distributed unequally* (Hofstede 1991: 28).

IND: *Individualism* pertains to *societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism* as its opposite pertains to *societies in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people`s lifetime continue to protect them in exchange for unquestioning loyalty* (Hofstede 1991: 51).

MAS: *Masculinity* pertains to societies in which social gender roles are clearly distinct (i.e., men are supposed to be assertive, tough, and focused on material success whereas women are supposed to be more modest, tender, and concerned with the quality of life); *femininity* pertains to societies in which social gender roles overlap (i.e., both men and women are supposed to be modest, tender, and concerned with the quality of life) (Hofstede 1991: 82-83).

UAI: Uncertainty avoidance can be defined as *the extent to which the members of a culture feel threatened by uncertainty or unknown situations.* This feeling is, among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules (Hofstede 1991: 113).

LTO: The fifth dimension of differences among national cultures is identified as opposing a *long-term orientation* in life to a *short-term orientation* (Hofstede 1991: 14).

According to Khalil (2012: 32) Russia is very high in PDI among BRICS nations. The huge discrepancy in power requires distinct status roles, a top-down approach and clear mandates for each task in all areas of business interactions. Top management makes the decisions while lower level of management is meant to accept them and carry out the orders. Communication is formal, restricted and centralized. Khalil (2012: 34-35) also suggest that societies high in power distance index are highly centralized leading to bureaucratic setups. This creates problems for businesses. For example, if a business plan would change many hands; it would require a number of approvals before actually reaching the table of the approving authority. This results in delays and often parties resort to bribery to hasten their way up the hierarchy. Red tapism, centralization of power, lack of open communications and favoritism are some problems that may hinder the way of businesses to achieve their goals.

Russia is ranked low in IND which shows that individual has less autonomy and decisions are deliberated by the group. The strong aspect for working environment is that the business is made on the basis of trustworthy and long-lasting relations. The business meetings are started with long informal conversations and parties involved get to know each other before reaching on any agreement. The communication style is profuse, context-rich and detailed. Often communication starts with personal details and ends with business details. The relationships ar4e important in business negotiations and winning contracts. (Khalil 2012: 33)

In low masculinity cultures, dominance is not welcomed and individuals are supposed to be modest and caring towards others. Standing out from the crowd is not appreciated. Russia is marked by feminism. Russians are modest and talk about their achievements and gains in a humble manner. At meetings and conversations, Russian understate their contributions, capacities and achievements. Boastful behavior is discouraged. At the business meetings, managers present humble view of their own contributions and expertise. (Khalil 2012: 33)

High degree of uncertainty avoidance (UAI) shows that the society does not tolerate ambiguity and uncertainty. Unforeseen situations are avoided. Societies that feel threatened by uncertainties and ambiguity tend to elaborate detailed rules and legal systems for structured life. Russia ranks very high in UAI showing structured society and rules. Individuals are expected to obey the law however weak it may be. Bureaucracy is one aspect of their society. Detailed planning and discussion is required at business meetings with the context and background of information.

Russians are formal and distant to strangers. But this distant behavior should not be mistaken for coldness or indifference. Rather, formal behavior is taken as a sign of respect. (Khalil 2012: 34)

According to Khalil (2012: 34) in society with low long-term orientation (LTO), decisions are made regarding short term point of view. Russian ranks low on this scale. This means present is given priority over future and business managers think short term.

4.3 Management and leadership in Russia

"*Leadership development in Russia has changed dramatically since the introduction of a market-oriented economy, but especially during the last several years* (Shekshnia et al. 2007: 56)".

Shekshnia (2007: 60) states that one cannot understand leadership development in any country without taking into account existing cultural traditions and norms. Over the centuries, Russia has developed its own distinct model of effective leadership, which has a strong impact on politics, business, and social life

According to Johanson et al. (2000: 54) western managers, who are used to operating in markets where there is a relatively high degree of trust and commitment, will have a difficult task ahead if they wish to penetrate the Russian market. Low level of trust and commitment will make it difficult to develop efficient business activities and to develop business relationships as we know them. The short-term orientation among Russian managers will lead to low investment and a tendency to focus on price. Western managers will either have to adapt to the structure and behavior in the market or to engage themselves much more in the concrete development of trust and commitment in their relationships with their business counterparts. On a higher level, it will also mean that the Western firms must be active beyond their business relationships in order to secure both sales and supply. Western firms will have to involve themselves in their business counterparts' relationships with their suppliers and customer in order to build business networks. These activities will necessitate a considerable amount of effort, but are one of two alternatives for success, the other being to find a business partner, Russian or foreign, who is already operating in a network of business relationships.

Fey and Shekshnia (2008: 2) suggest that leaders are important in any society, and by making their followers rise to new heights, they drive economic and social progress at macro and micro levels. Such leadership also provides meaning for employees. These roles are universal; however, the way people enact them differs from country to country. Russia has a tradition of strong, larger-than-life mavericks such as Peter the Great, Josef Stalin, and World War II hero general Georgy Zhukov. The new wave of Russian capitalism confirms this tradition: regardless of a successful Russian entrepreneur´s competencies and management style, he or she invariably has enormous power within the organization. Followers look to the leader as a superior being who has unique rights and, by definition, deserves compliance. Russians have a need for powerful charismatic leaders and tend to create them often irrespective of the leaders´ intentions.

Russians` expectation of foreigners in leadership position, however, are more complex. The formal title of CEO does not guarantee its holder the same level of compliance from Russian subordinates as if a Russian held that position. Respect and conformity will come only if the leader demonstrates superior competence and delivers tangible results. When a leader is recognized as having such competence, Russian employees expect from him or her specific actions that address their problems and improve their working lives and the performance of their company. To same degree foreign executives must live up to a higher ideal than Russian managers since in Russia the general belief is that foreigners are more progressive and can do more for their staff than Russian bosses. When the above conditions are met, Russian employees led by foreign managers can perform wonders. When these conditions are not met, problems are likely to occur, claim Fey and Shekshnia (2008: 2-3)

4.4 Unexpected nature of Russia and its business environment – Present day

According to Fey and Shekshnia (2008: 19) they sometimes joke that Russia is a very predictable place – something unexpected will happen every day! Indeed, there is something to this statement and thus learning to manage in crisis is an important skill to gain to be successful in Russian business.

Russia is extremely dependent on its natural resources. According to Korhonen (2015: 6) it is difficult to overstate the importance of energy prices for the Russian economy. Crude oil, oil products and natural gas brought in 70% of Russia`s export earnings in 2014. The energy sector provides Russian Federation with more than 50% of its tax intakes at the federal level.

The decreased in oil price among other factors have caused the turmoil in Russian economy. Korhonen (2015: 5) states that between 2000 and early 2008, Russian GDP grew at an average rate of close to 7.5% p.a. In the wake of the global financial crisis in 2008 and 2009, Russia has failed to reacquire this high-growth dynamic, despite the fact that oil prices have recovered somewhat. Indeed, Russian GDP growth has decelerated almost continuously since 2011. Korhonen (2015: 5) also points out that fixed capital investment has remained low since the global financial crisis. Between 21% and 22% of GDP, to be more precise. While this would not be problematic for a country like, say, Germany, Russia`s investment ratio remains well much below that of e.g. the Czech Republic and Romania. Russia`s investment ratio is also considerably lower than its BRIC colleagues India and China.

Russia`s economy is in dire straits, with GDP this year is expected to contract about 4%. Prospects for recovery depend very much on price of oil and regaining access to international financial markets. However, even if the current geopolitical tensions would magically disappear tomorrow, the Russia economy is poised for relatively low growth over the next two decades. While this is probably true for most of world`s economies, compared to go-go years between 2000 and 2008 Russia`s growth slowdown may be quite traumatic for some. (Korhonen 2015: 10)

According to Saari (Granholm 2015: 23) Russia sees the international relations as zero-sum game. The Russian logic is based on the power politics and sphere of interest thinking that obtained during the cold war. In Russia, NATO is seen as instrument or tool of the USA and therefore the expansion of NATO is seen as a threat to Russia.

Saari (Granholm 2015: 23) also argues that during the rule of President Vladimir Putin, there will not be any changes for Russian current policy. Russia considers still all former regions of the Soviet Union to be its sphere of interest.

Korhonen (2015: 10) states also that notably, certain long-term factors like demography are beyond current administration`s control. Others could be influenced by policy, however. For example, the investment ratio would likely be higher in an environment with better business climate. Allowing greater competition would also foster productivity. Potential enhancement in business climate and productivity would help Russia diversify its economy and perhaps add to the sophistication of products and services.

Obviously, the challenges facing policymakers is well understood inside Russia, too. For now, calls for market-friendly reforms have gone unheeded. The current administration`s priorities are elsewhere (Korhonen 2015: 10)

The research conducted by Fey and Shekshnia (2008: 19) has uncovered that there are several actions that firms can follow to better deal with crisis. First, it is important that firms are open to change and view change as a potential opportunity and not only a threat. Indeed, crises normally emerge in Russia from a change in the external environment and while such change often initially lead to problems as it interrupts the status quo, change can also lead to opportunities. Second, it is important that firms be prepared to act quickly in response to crisis. Third, it is important that senior managers in firms in crisis stay calm and portray a confident face for employees (they should acknowledge that the crisis exists, but be confident that it can be dealt with successfully.) Fourth, it is important to ask multiple people from different organizations their perceptions of how bad the crisis really is and their response to the situation. In crisis, some people`s emotions overshadow analytical ability. Finally, steps should be taken to prevent crisis such as developing sophisticated early warning and control systems to minimize surprises.

In Russia, with its constantly-changing environment, it is important to stay focused on a firm´s big goals and be flexible on the details. Some managers argue that Russia is so dynamic that it is impossible to do much planning or have long-term goals (Fey and Shekshnia 2008:19). Fay´s and Shekshnia`s research (2008:19) shows that in fact just the opposite is the case. In Russia`s dynamic environment, employees need clear strong goals that the company is working towards to reduce the level of uncertainty and provide some stability and directions,. Whit such goals, the instability of the external environment seems more manageable. This is not to say that such goals should never change, but they should not change very frequently. Fey and Shekshnia (2008:16) argue that it is not the key goals that should change often but the details of how these goals are achieved which needs to be very flexible and often changed in Russia. They also suggest that contingency planning can be helpful in achieving these goals and facilitating this flexibility.

4.4.1 Sanctions

"Already, sanctions have raised the specter of an increasingly isolated and nationalistic Russia seeking to forge alternative alliances. It has turned to China and Saudi Arabia for alternative sources of financing, and to the fellow BRICS nations for increased trade and investment activity. Clearly, the ability to show such defiance in the face of economic sanctions may further fan Russia´s aggressive stance rather than curb it (Logendran 2015: 51).

The Western sanctions against Russia were implemented as a response to the ongoing conflict between Russia and the Ukraine, states Dreger et al. (2015: 8). The question whether the Ukraine should establish tighter economic relationship to the EU or to Russia is at the centre of the problem. The developments escalated to a new stage in spring 2014. Russia stopped financial support to Ukraine. At the same time, pro-Russian demonstrations started in East Ukrainian regions with mainly Russian speaking population. During this unrest, the Crimean peninsula was annexed by the Russian Federation in March. Riots escalated into an armed conflict between separatist forces supported by Russia and the pro-Western Ukrainian government. (Dreger et al. 2015: 8)

According to Dreger et al. (2015:9-10) to increase to incentives to sign a peace agreement, Western governments, most notably the US and the EU imposed sanctions against individuals and firms in Russia and the Ukraine over the whole duration of the crisis. These sanctions started with the annexation of the Crimea and were gradually sharpened as the conflict continued. Initially, Western sanctions include travel bans and the freezing of the assets of individuals. Sectorial sanctions like restrictions on government-owned Russian banks or trade restrictions related to the Russian energy and defense sector have been added at later stages. Russia responded with restrictions to several countries, including a ban of food imports from the USA, the EU, Canada, and Australia and travel restrictions for certain Western citizens. More serious measures can be on the agenda on both sides, like the exclusion of Russia from the international payments system or the refusal of overflying rights over Russia for Western airlines. The implementation depends on the future evolution of the conflict.

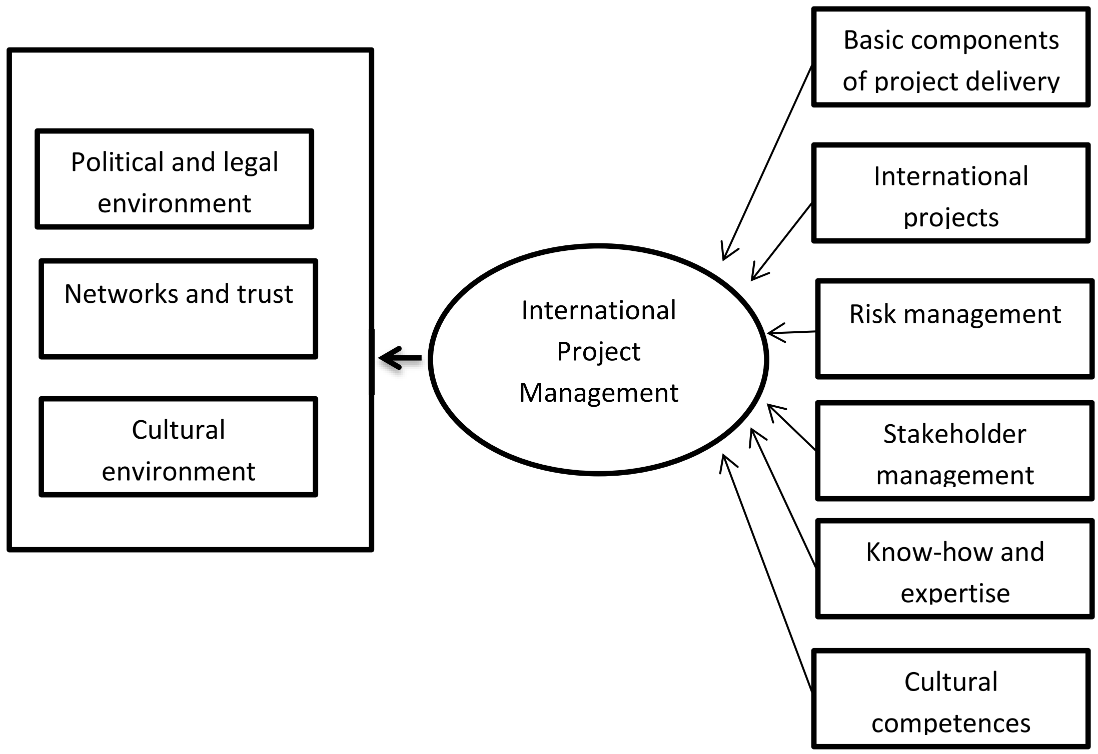
The United States and the European Union have renewed, until 2016, wide-ranging sanctions imposed on Russia following its annexation of Crimea in 2014 and subsequent support for separatists in Eastern Ukraine. As a tool of economic statecraft, sanctions seek to coerce states to alter political and economic behavior. In this case, the objective is to force Russia to abandon support for Ukrainian separatists. To this end, the financial sanctions seek to inflict pain on Russian banks by severally curtailing their access to international financial markets. Yet, as of mid-2015, Russian banks seem to have weathered the sanctions reasonably well despite the free-fall of the ruble at the end of 2014 and plunging oil prices. (Logendran 2015:48)

Under amendments to the payment systems act in the spring 2014, all card payments made in Russia need to be settled through a national payment clearing system. As a result of the change, Visa and MasterCard, which dominate the Russian credit and debit card markets, have moved to settling payments made in Russia using the national settlement system, which is owned by the Central Bank of Russia. *The driver of the change has been the desire of Russian officials to bolster the country's economic independence and support financial institutions that have been targeted* *with sanctions by Western countries.* The national payments card system will also feature Russian´s own Mir payment card. On December 15 2015, *Bank Rossii, which was targeted with Western sanctions in summer 2014,* became the first bank to issue a Mir payment card. Use of the Mir card in international payments, on the other hand, may remain limited. (BOFIT Weekly1. 8.1.2016)

Dreger et al. (2015:15) state that from the project business perspectives, the worst and most devastating impact have those sanctions that were set by USA and the EU on July 2014. USA imposed additional treasure sanctions on Russian financial institutions and on a defense technology entity and the EU imposed restrictions on export of certain dual-use goods and technology, on the sale, supply, transfer or export of certain technologies for the oil industry and on access to capital markets for certain Russian financial institution.

Figure 6 Theoretical framework of the Thesis

Russian Business Environment



This picture shows what are those factors that have an effect on Russian business environment and those component or tools that should be used by the foreign project providers in project management when operating in the Russian Federation.

5 METHODOLOGY

According to Wilson (2010: 4) in business, research is important in identifying opportunities and threats. Often a company´s success or failure is dependent on the actions undertaken as a result of conducting research. It is worth noting that a caution approach should always be taken when interpreting research findings and acting upon these findings. From an organizational perspective, usually strategic decisions are made on the bases of research findings.

The research consists of literature review and results of face to face interviews with the representatives of Finnish project firms and other experts. The conclusions are based on the information received from the interviews.

The interview data was gathered via open-ended in-depth interviews with business people from diverse backgrounds as well as other experts that have strong expertise in Russian business environment. Common factor, among the interviewed business people, is that they all have done project business in Russia.

Since the methodology of the thesis is deductive, the research started by studying the existing theories from multiple sources such as academic book and articles. Then the interview were conducted and conclusions made.

6 EMPIRICAL ANALYSIS

“The purpose of business research is to gather information in order to aid business-related decision-making. Business research is defined as `the systematic and objective process of collecting, recording, analyzing and interpreting data for aid in solving managerial problems`. These managerial problems can be linked to any business functions (Wilson 2010: 3)

6.1 Context of the study

This study combines two subjects. Project management framework and Russian business environment.

Project business and project management are much and broadly studied disciplines. The project management is the framework which contains different managerial procedures and tools in order to sure the success of projects.

According to APM (2006: 10) a project will be managed differently according to a wide range of factors, including the industry or business sector in which it is based, *geographical location*, use of virtual teams, technical complexity or financial impact. The tools and techniques of project management should be applied in a manner that is appropriate to their context. Context covers both the external and internal environments and must consider the interests and influences of stakeholders. The major elements of the environment are often based on the acronym PESTLE (**P**olitical, **E**conomic, **S**ociological, **T**echnical, **L**egal and **E**nvironmental). Other factors to consider are organizational capability and maturity, structure and process and individual resource capability and availability.

Russian business environment differs from the Western business environments. In Russia`s dynamic environment, some would argue that planning is impossible. However, Fey and Shekshnia (2008: 31) argue that planning is even more important in such an environment so that firms are prepared for different developments. In such environments correct, efficient and proper implementation of project management is of the utmost importance.

Risk management and stakeholder management are fields within the project management. In Russia´ constantly changing and different business environment, these two managerial section are highlighted in this Thesis, when projects are put into practise by the foreign companies.

6.2 Introduction to case companies and other interviewees

For this study, the author chose different kind of interviewees in order to gain broader and diverse view on the subject studied in this empirical study.

All together seven person were interviewed by the author. Five of them were from Finnish companies that were or currently are doing project business activities in Russia. One interviewee represents a non-profit, match-making organization. Also one person was chosen to represent the academic point of view on subject.

More detailed information on interviewees and dates and lengths of the interviews can be found in Appendix 1.

6.3 Results from the interviews

The common comment among all the interviewees was the vital role of local Russian experts when entering to the Russian markets or when operating there. This applies to both project business and "normal business operations".

All of the interviewees pointed out the importance of networking in Russia. They also stated that it takes time and effort to create these personal contacts and networks.

"Verkostoituminen Venäjällä vaatii aikaa. Se vaatii henkilökohtaisia suhteita.(Seppälä 2013)

"Business networks are also import in western countries but in Russia business networks relay more on ***long personal*** *relations than in western economies. (Shveykovskiy 2013)"*

According to Coachman (2013) the trust in Russia between business partners is built, as in Finland and other western markets, on;

- the quality of a product offered
- business partners´ own qualities

He (2013) claims also that blat, instead, has nothing to do with the business networking since it is more like the relic of Soviet economy with which soviet citizens tried to get commodities that were not easy to obtain during the Soviet era.

The importance of good relationships with the Russian authorities and local and governmental officials were emphasized especially among Finnish interviewees.

"Viranomissuhteet on hoidettava! Venäjällä systeemi on yhä sama kuin se on aina ollut. Viranomaistoiminta ja byrokratia ovat ehkä 4-5 kertaa raskaampia kuin Suomessa. Jos Suomessa tarvitaan 20 leimaa ja lupaa, niin Venäjällä vaaditaan 5 kertainen määrä. (Hahl 2013)"

"Jos Venäjällä tekee vähänkin isompaa projektia, pitää projektin tarjoajalla ja myyjällä olla suhteet kunnossa kaikkiin venäläisiin poliittisen hierarkian osapuoliin eli federaatiotason, aluetason kuin myös paikallistason päättäjiin. Ketään näistä eritason poliittista toimijoista ei voi ohittaa. (Hahl 2013)"

According to Saarela, (2013) Russian markets are neither easier nor more difficult than Norwegian markets. Both markets have their own special features and procedures.

"Projekti toimitukset ovat satunnaisia; toisina vuosina meillä on useita ja toisina vuosina ei ollenkaan toimituksia Venäjälle. Lisäksi projektiliiketoiminta on pitkäjänteistä toimintaa. Neuvottelut tarjouksesta sopimuksen kiinnilyömiseen saattavat kestää hyvinkin pitkään, puolesta vuodesta vuoteen. Ei Venäjä ole vaikeampi tai helpompi liiketoimintaympäristönä kuin Norja. Molemmissa maissa kaupanteossa on omat erityispiirteensä.(Saarela 2013)

According to Seppälä (2013) Russia is huge country in size and population and cultures vary within Russia. For Finnish business people, for example, it easier to do business in the Karelian Republic or in Saint Petersburg`s region then for example in southern Russia such as in North Caucasus, where majority of people are Muslims.

On the export and import practices, the interviewees agreed that dealing with Russian authorities is not easy but on the other hand there are procedures that help in these operations.

"Tullaus ei ole ongelma jos sen osaa tehdä. Se kyllä vaatii monenlaista taipumista. Sertifikaatit koetaan kuitenkin ongelmaksi tullauksessa, koska niiden hankkiminen on aikaa vievää ja kallista.(Seppälä 2013)

"Erittäin hyvä olisi käyttää venäläisiä tullauksen asiantuntijoita, joilla on suhteita eri tahoille. Venäjän tulli on hyvin tiukka tullausasiakirjojen kanssa. Papereista ei saa puuttua mitään asiakirjoja tai leimoja. Myös tavaran lastaus pitää olla tehty niin kuin papereissa lukee. Myöhästyminen käy kalliiksi, jos toimitukset jäävät Venäjän rajalle seisomaan, koska paperit tai tavaran lastaus ei ole sitä mitä Venäjän rajaviranomaiset vaativat (Saarela 2013)"

"Venäjän viranomaiset vaativat tullauksessa paljon lupia ja sertifikaatteja. Venäjän toimintaympäristössä projektien hintaan pitää sisällyttää liikkumavaraa, sillä viranomaiset saattavat vaatia ylimääräisiä sertifikaatteja ja lupia, jo toimitettujen lisäksi. Byrokratia ja lukuisat eri viranomaisten vaateet voivat olla riskejä ja ne pitää hinnoitella projektien hintaan.(Seppälä 2013)

Concerning the cultural aspect when doing project business in Russia, the CEO of Raita Sport Oy Hyvärinen (2013) suggest that employing the right person is the key act in order to avoid cultural conflict.

"Kulttuurikonfliktit pystytään välttämään palkkaamalla paikallisia venäläisiä työntekijöitä. Tässä yhteydessä kannattaa myös painottaa sitä että lisäarvoa luo se että yritetään palkata paikallisia venäläisiä, jotka tuntevat myös länsimaalaiset tavat, käytännöt ja ajattelutavan. Näin ollen he ymmärtävät mitä ulkomaalaiset haluavat, mutta osaavat myös selittää sen miksi Venäjällä pitää toimia toisin kuin länsimaissa.(Hyvärinen 2013)

According to Shveykovskiy (2013) decision making in Russia is highly autocratic. Especially in business, the top decisions are made by the top manager. So if a foreign company tries to make business in Russia they should negotiate with as high ranked manager as possible. This would speed up the negotiation process since middle managers usually need approval from top managers any way.

Very interesting subject that was brought out in interview by Hahn was the co-operation and safety networks between foreign companies operating in Russia. There are business associations in Moscow and Saint Petersburg, which help foreign companies in Russia.

”Turvaverkostoja on olemassa länsimaalaisille ja kansainvälisille yrityksille Venäjällä. Moskovassa toimii Association of European Businesses (AEB) ja Pietarissa Saint Petersburg International Business Association. AEB:n kuuluu noin 1000 eurooppalaista yritystä. Organisaatiossa on noin 70 erikoistyöryhmää, jotka ovat keskittyneet eri alojen asioihin, esim. lakiasiain, kaupan ja autoteollisuuden asioihin, ja jotka kokoontuvat kerran kuussa ja joissa vaihdetaan tietoja vapaasti ja autetaan toisia eurooppalaisia yrityksiä. AEB on myös hyväksytty Venäjän Federaation viralliseksi `talking` partneriksi ja se pystyy näin suoraan keskustelemaan Kremlin kanssa.(Hahn 2013)

7 CONCLUSIONS AND IMPLICATIONS OF THE STUDY

The Russian business environment has been in turmoil during the last years. Recession, Russian government´s policy and sanctions set by the Western nations have changed that business environment. On the other hand, the frameworks of project business and project management are on stable foundation. This indicates that the traditional tool and techniques of project management, such as risk management and stakeholder management, are extremely vital when project providers plan to enter into or they already operate in Russian business environment. But today´s Russian business environment requires more specific and sophisticated tools and techniques of project management than maybe earlier, but the earlier experience and knowledge with proven strategies and tools must not be forgotten.

As cited earlier in this Thesis, the statement of Association of Project Management (2006:10) holds true in today´s business environments.”The tools and techniques of project management should be applied in a manner that is appropriate to their context. Context covers both the external and internal environments and must consider the interests and influences of stakeholders”

7.1 Answers to the research questions

The Research question of this thesis is; *how can the international projects be successfully managed in the Russian business context*

All, except one interviewee, agreed that knowledge of Soviet era and even imperial Russian period is important in order to understand present-day Russian society and business environment.

Small and middle sized foreign companies should co-operate and unite their resources when they want to enter to the Russian market. In this way also possible risks and losses are share and share alike. Particularly small project business companies should consider very thoroughly their internationalization to the Russian markets, instead they could enter to Swedish or other Northern European markets where business environment is easier and more familiar than in Russia.

The use of Russian or foreign expertise in Russia and its business environment can be the question of survival for foreign companies that operate in Russia or want to enter into the Russian market. The experts are familiar with the Russian business and overall environment. They know how the system works, what is expected from a company by different Russian stakeholders, such as authorities, and they have contacts to correct Russian quarters.

The importance of the layers and law firms in Russian business context must not be forgotten. Especially when a project provider company is entering into the Russian markets, due diligence investigations are important to conduct in order to avoid unfortunate surprises.

Risk management should be specifically designed for the target market, in this case for the Russian business environment. When this specific "tailor made" risk management is combined with the general project risk management it will increase the effect and adds synergy.

In Russia, where relations to authorities are not always easy and fluent, the role and importance of project stakeholder management stand out. Risk management and stakeholder management should be seen as frameworks that improve each other's effectiveness and in this way improves success of the projects´ realization.

Dealing with corruption in Russia, there are different approaches and strategies that foreign project provider companies as well as all the other foreign companies can use, depending on their strategy and ethical viewpoint. The dilemma for foreign companies usually is that they do not understand how deeply the whole Russian society is corrupted. The issue will be further treated in Chapter: Managerial implications.

All in all, for the western companies doing business in the Russian Federation is enticing since the country has potential business opportunities due to its huge natural resources. The Russian business culture, procedures and rules, however, are still far away from those ones in western countries, and that is why foreign companies usually have huge problems when operating there.

The cultural aspect of business environment must also be emphasize when operating in Russia. Since the Russia has its own divergent culture, it must be taken account.

Knowledge of Russian society, culture and national characters can be seen as an investment, when projects provides plan to enter into Russian markets. Awareness of Russian culture, language, manners and practises will unquestionably help in marketing and sales activates when new project opportunities are sought for.

The research is based on the interviews that were taken in place in 2013. Recent Russian business environment has change considerably after that. Never the less, basic tools, strategies and procedures when doing project business in Russia are as vital as recent ones that has applied into the recent situation. After the collapse of the Soviet Union, Russia has had its ups and downs, its business environment has varied from easy to complex and so forth. But there are some “parts” of project management that can be helpful when operating in Russian markets despite of the its present situation; Basic components of project delivery, know-how of international projects, risk management, stakeholder management (with the help of conflict management), know-how and expertise and last but not least cultural competences of the target and own markets.

7.2 Theoretical implications

The future of Russia as a vibrant player in the global economy is questionable unless legitimate formal institutions can be created to fill the current void. Such institutions should be strengthened to reduce the endemic bribery and corruption that are so often linked to officials within those institutions. (Puffer and McCarthy 2011:32)

From the examination of more than two decades of research, Puffer and McCarthy (2011:33) conclude that Russian business is at a crossroads regarding its role in the global economy. While progress has been made towards becoming a market-oriented economy, failure to continue making more positive changes could lock the country for some time in its present status as an unbalanced, corruption-ridden, natural resource-based economy. To become a fully functional member of the global community, Russia and its businesses will need to reduce the negative and retain the positive aspects of the country´s informal, cultural-cognitive institutions while simultaneously building the legitimacy of formal institutions, and in the process reduce the pervasiveness of the country`s formal institutional void.

In this Master´s Thesis the author have combined two theoretical frameworks. Project management and Russian business research. From the field of project management the author have raised two individual tools or strategies; namely Risk management and stakeholder management. These two managerial aspects are maybe the most important when operating in Russian business environment. As being stated in this research the Russian business environment differs considerably from the Westerns business environment and this increases the possibility of risks for foreign project business provider. In Russia the networks are extremely important (the author does not suggest that they are not important in the Western markets) and relationships with differ authorities and governmental bodies are vital in order to succeed in Russia. This is why the stakeholder management is highlighted. Since the thesis is about international business, the aspect of culture and its effects on business has also been dealt with shortly. In this case with the help of Hofstede´s cultural dimensions framework.

7.3 Managerial implications

During the study, several issues came up from the literature review and interviews that should be taken in consideration in practice when doing project business in Russia or when planning to enter into Russian market as project provider.

According to Saari (Granholm 2015:24) Russia does not follow the obligations that its membership in the WTO requires. Russia is protectionist economic power, of which economy is based on monopolies. National interest guides decision-makers and economic life, not for example the free economic competition. Russia still suffers from *corruption* that stretches all over the Russian society and *lack of constitutional protection of property*.

Saari (Granholm 2015:24) also state that the Russian decision-makers relating to economic policy do not want to or cannot get rid of corruption. In order to do so, the free and independent press and *competent* legal system is required and these ones Russia is lacking.

When referring to the future trends in Russia, Saari (Granholm 2015:24) states that Russia will stay on the same road as before in short distance. Undemocratic and heavily corrupt administration system and regime remain in Russia. The system in Russia will not be renewed. President Putin will not modernize his way of rule and he will not want the change the present status quo. The presidential government holds on to political power and vested interests they have gained. In future Russian policy, the superpower status and national interest are emphasized still further. For the time being, the Russian people have accepted this tendency, which is supported by the media controlled by the government and the president.

The corruption in Russia is rather complicated problem for those foreigners and firms that conduct business there. For example, Fey and Shekshnia (2008:22) clearly state that foreign businessmen who have been working in Russia for some time and who claim to have never dealt with corruption are either lying or completely misunderstand the environment in which they operate. Business practices that appear corrupt by Western standards are still omnipresent in Russia. Such practices run through the fabric of the whole society from school teachers taking cash from parents to give students better grades to the federal ministers and parliamentary deputies´ running private business empires.

On the other hand Fey and Shekshnia (2008:23) also stress the fact that practices that seem corrupt by Western eyes are extensive does not mean, however, that foreign companies and individuals must compromise their ethical standards when working in Russia.

According to Fey and Shekshnia (2008:24) awareness of corruption and its consequences enables corporations to plan to deal with such risks. The most ineffective strategy is to say “that´s the way we work back home and therefore that is the way we will work in Russia” In fact, companies and individuals with such attitudes should stay out of the Russian market.

A number of strategies, which combine firmness of thought and flexibility of execution, enables Western companies to do business in Russia and still preserve integrity and prosper. One strategy is to outsource corruption. Firms can subcontract some activities (e.g., bidding, dealing with regulatory authorities, and acquiring land and property) to local companies who are willing to deal with local customs and are good at it. Another strategy for dealing with Russia`s corruption is preempting. Instead of waiting for local officials to come to the company with an ugly request, one can take the initiative to offer to cooperate on one´s own terms. A third strategy for dealing with non-conventional practices is to enter business at a later stage when the situation is more transparent and stable. The fourth strategy for dealing with corruption is simply to abstain. (Fey and Shekshnia 2008:24-25)

Fey and Shekshnia (2008:25) state that most foreign companies, which have been successful in Russia use the above-mentioned strategies to deal with corruption. However, as is the case with business strategy, the key to success is effective implementation. While flexibility is important at the design stage, firmness and consistency are critical for successful implementation. After drawing a line, it is extremely important not to cross it. Russians will continue to test foreigners´ commitment to their values and proclaimed ethical norms. When the reaction is always consistent with the declared approach, Russians will most likely eventually find ways to work with companies on the company´s terms.

According to Patanakul et al. (2016:459) government projects are susceptible to politics that can have significant impact on project performance. Government projects are affected by political risks. It was found that government projects that are ruled by political agendas reflect relatively short-term views of legislators and ministers. Although political risk is a factor, the primary risks and uncertainties of government projects are related to the instabilities and dangers adversely influencing project finances or even threatening existence of the projects. Large public projects are often planned and built in complicated and changing political environment. It is important to ensuring the proposed ideas are in line with current legislation before moving forward with a product. Legal consultation is recommended to a useful and effective way to ensure that proposed ideas are in line with current legislation.

Due the special nature of project business combined with Russian business environment, which differs from the Western one, there are project management strategies or tools that are very important in order to be successful in projects in Russia. Risk management will decrease the possibility of unwanted uncertainties to happen before, during and at the end of the project delivery. Stakeholder management is vital in every business environment, but in Russia, it´s significance is emphasized, due to the exceptional relations between the (foreign) companies and local authorities in different levels.

In the 21st century the importance of personal relations has decreased (since the Soviet era) in many sectors due to progress and development of Russian economy and legislation, improved profitability among Russian firms and tightening of competition. The networks are still extremely vital in contacts between firms and the public sector. Entrepreneurs should and also sometimes need to build personal relations to Russian state officials. (Salmenniemi, Rotkirch 2008: 19)

Constant and close follow-up of Russia, its society, governance, politics and economic environment is of utmost importance, since the Russia and its political, economic and legal environment change and transform very quickly and often also in unpredictable ways.

7.4 Trustworthiness of the study

The situation and developments both in economics and politics in Russia during this research changed very much and those changes were also very fast and this caused that not all the objectives that were set to the research at the beginning of the research work, were not successfully reached. There were also some material that had to add to this thesis because of the changes, for example, on sanctions. Otherwise the research would have been outdated already when it was presented to the professor.

7.5 Limitations and suggestions for further research

The insufficient knowledge of Russian language of the author has limited author`s access to Russian language resources and due to this the perspective is mainly western.

Since the Russian business environment has changes a lot and many times after the collapse of the Soviet Union, it would be interesting to read a research on changes of Russian business environment in the future.

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APPENDICES

Appendix 1. List of interviewees

Interview with **Peter Coachman**. Director of Technopolis in St Petersburg. *Face-to-face interview 13.3.2013*. Length: 1h 1min 52s

Interview with **Martti Hahl.** President of Barents Cener Finland. *Face-to-face interview 15.5.2013*. Length: 44m 04s

Interview with **Alex Shveykovskiy**, Doctoral Student at the Oulu Business School, *Face-to-face interview. 4.6.2013* Length: 54m 49s

Interview with **Martti Saarela**. Managing Director of SteelDone Group. *Face-to-face interview19.6.2013.* Length 47m 08s

Interview with **Tuomo Hyvärinen** Managing Director of Raita Sport Oy. *Face-to-face interview* 28.8.2013 Length 53m 38s

Interview with **Jaakko Seppälä** Managing Director and **Elina Pasternak** Specialist on Russian business of Ecofoster Group Oy. *Face-to-face interview* 20.9.2013 Length 35m 56s

Appendix 2. Interview questions
Face-to-face interview

Unstructured interview questions

Themes: Russian political-legal business context/environment versus western one

Networks in Russian business context/environment versus western one

Russian cultural business context/environment versus western one

Risk factors in Russian business environment from foreign perspectives

Experiences of your company on entering onto Russian market or when operating there

Semi-structure interview questions

What are essential project business specific issues when foreign project business provider wants to enter onto the Russian markets or when already operates in Russia?

What is the impact of Soviet era on contemporary Russian business environment (if any)?

Marketing and selling of project based offerings/solutions of foreign suppliers to Russian customers? Where to start? Sales arguments? (reputation of foreign project supplier in Russia, price, trust, etc.)

What are the competencies/skills or know-how that foreign project providers need in order to prosper in the Russian business environment?

Where to starts when Finnish small or middle sized project provider company wants to enter the Russian markets? (contacts to headquarters in major cities or local contacts with, for example, local subsidiaries in Murmansk region? trade fair?)

How important is the co-operation with local Russian partners when selling, starting or already operating in the field of project business in Russian markets?

Is the knowledge of Russian language (and culture) still vital for foreign business people when a company enters/operates in Russian markets in order succeed?

What are the risks for foreign firms to enter or operate in the Russian business environment? (Have some of these risks changed / faded away / increased in recent years)