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DETERMINANTS OF WESTERN-RUSSIAN PRODUCTION ALLIANCES -THE CASE OF FINNISH METAL INDUSTRY SMES' SUBCONTRACTING IN RUSSIA

This paper discusses the elements of Western-Russian production alliances. Alliances are examined as a process starting from pre-alliance negotiations and ending with alternative alliance outcomes. Factors studied are motivation, partner selection criteria, expectations of the partners and problems occurring during the pre-alliance negotiations and actual operations, as well as technology and management transfer in the alliances. The empirical data of the paper consists of interviews with the CEOs of eight Finnish metal industry SMEs, which either have a Russian subcontractor or have considered starting subcontracting or licensing in Russia.

Key Words: Western-Russian Alliances, International Subcontracting, Metal Industry

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1. INTRODUCTION

Since the opening up of the former socialist countries of Europe, entry strategies of Western companies in the Central and East European (CEE) markets in transition have become a focus of increasing interest in international business studies. Among the topics for analysis have been the motives for investment in the CEE, choice of entry mode and timing of entry (Meyer 2000). However, the existing studies have mainly limited to explaining foreign direct investment behavior (Törnroos and Nieminen 1999). Contractual operation modes, such as subcontracting, as alternative modes of internationalization in CEE have been almost totally neglected. Furthermore, majority of studies has mainly concentrated on the market entry stage, whereas the actual operations of foreign companies on the CEE market have received less attention (Meyer 2000).

Existing studies on international alliances have mostly focused on technology alliances among large multinational corporations, whereas production and marketing alliances have received little attention and in CEE case hardly any (Radosevic 1999). Furthermore, various aspects of alliances, such as partner selection criteria or alliance outcomes, have been studied separately, and attempts to integrate them are few (Saxton 1997).

This paper is a prelude to a research project, the aim of which is to define the determinants of Western-Russian production alliances operating in Northwest Russia. The research topic will be approached from the point of view of both Western companies and their Russian partners. Alliances are viewed as a process starting from pre-alliance negotiations and ending with alternative alliance outcomes. Factors relevant at each stage and their linkages are examined. Due to the complex nature of the research phenomenon, two theoretical perspectives are used. First, alliances as an entry mode into CEE are discussed from international business perspective and second, the interaction of the alliance partners is approached on the basis of organization theory.

This particular paper is based on results of an existing case study (Karhunen 2001) including eight Finnish metal industry SMEs, seven of which either have ongoing subcontracting operations in Russia or which have examined the possibilities to start subcontracting in Russia. One of the case companies has made an attempt to sell its production license to a Russian company. Although limiting to the experiences of the Western partners, the data provides guidelines to the further data collection for the project.

The paper is structured as follows. First, the problem of defining alliances and characteristics of Western-Russian alliances are overviewed on the basis of existing literature. Second, international subcontracting as an operation mode is discussed. Third, methodology of the empirical study and characteristics of the case companies are presented. Furthermore, the process nature of Western-Russian production alliances is studied on the basis of existing literature and empirical results. This is done by examining the motivations of Western companies, their partner selection criteria, expectations of the partners, and problems occurring during the pre-alliance negotiations and actual operations. Special attention is paid to the problem of

technology and management transfer in the alliances. Finally, tentative conclusions to be tested in further cases are driven.

2. NATURE OF INTERNATIONAL ALLIANCES

In the research literature there are several definitions for (international) alliances (see, e.g. Parkhe 1991 and Osborn et al. 1998). According to Radosevic (1999) researchers agree on two issues. First, alliances are neither direct investments nor arm's length relationships and second, alliances are formed by two or more independent agents. On the contrary, disagreement exists on two factors: whether the existence of two-way technology flows is a precondition for an alliance and whether non-technology alliances can be considered as real alliances. Instead of searching a single definition, Radosevic (1999) suggests that specific definitions should be used as appropriate for the research question.

2.1 Western-Russian Production Alliances Defined

For the purposes of this research, a loose alliance definition seems most appropriate in order to capture the whole variety of the forms of production alliances between Western and Russian companies. Therefore, we refer to the definition of alliance employed by the European Commission (1995, ref. Radosevic 1999, p. 34) according to which an alliance is 'any form of company cooperation, involving equity investment or not, regardless of the duration and objectives of the partnership'. According to this definition also cooperative arrangements created for single projects can be treated as alliances. Clearly, mergers and acquisitions are excluded since they do not involve two independent partners. Furthermore, alliances are not limited to technological cooperation but may concern any aspect of company activity. This particular research project is limited to production alliances. Thus, alliances under our examination are defined as *any co-operational arrangements between Finnish and Russian enterprises*

on the field of production, involving equity investment or not, regardless of the duration of the partnership.

Non-equity production alliances, in the focus of this paper, involve two types of arrangements. First, processing contracts, that is manufacturing according to the Westerns partner's specifications, whereby most of the imported materials and components are delivered by the Western partner, who also receives and markets all output. Second, subcontracting, which means manufacturing of materials or components locally as a part of the value chain of the principal's production. (Radosevic 1999) Also licensing contracts, when involving technological co-operation, are involved. Equity production alliances, which will be studied in the future phases of this research project, include joint ventures between Western and Russian partners, established for production purposes.

2.2 Characteristics of Western-Russian Alliances

The socialist economic policy restricted the presence of foreign enterprises in the Soviet Union. Western companies were allowed to form joint ventures with minor equity ownership with Soviet organizations and companies in 1987, and for several years they were the only form of foreign investment allowed. Many of the joint ventures were transformed into 100 % foreign-owned companies, when the legislative changes allowed it. (See, for example, Fey 1995 and Meyer 2000) Therefore, the true nature of alliances in the East-West enterprise co-operation is still unclear. Alliances between Western and CEE companies can either be a transitional form towards mergers and acquisition, or alliances as a distinctive form (Radosevic 1999). At the moment FDI is the preferred mode of entry in CEE, although minority acquisitions and joint ventures still claim a big share of Western investment (Meyer 2000).

Alliances in a *transitional form* are popular especially in consumer industries, where they are used as a step towards take-over of a local company and its distribution network. In these cases, the main motive of the Western partner is gaining market share.

On the other hand, there are so-called forced transitory alliances, which have been formed because government regulations have not allowed other modes of Western investment. (Radosevic 1999) These alliances have been turned into full ownership as legislative changes have allowed it.

However, although full foreign ownership is now allowed in the CEE countries, alliances have been a suitable mode of entry in cases where full control over operations is not required, when restrictions for privatization exist, and legal framework is unstable (Radosevic 1999). Furthermore, a local partner may be useful in many ways, for example in accessing local business and government networks (Meyer 2000).

The number and value of non-equity alliances, such as subcontracting, is difficult to estimate due to the fact that they are not registered in statistics. However, it is known that in Russia there is already a high number of information technology alliances (Vonortas and Safioles 1996, ref. Radosevic 1999). Also companies in manufacturing industries have showed interest in supplying especially labor-intensive phases of production in Russia. In addition to metal industry under focus in this paper, Finnish-Russian subcontracting relationships are found in, for example, furniture and clothing industries.

3. METHODOLOGY

The research approach employed for collecting empirical data for this particular paper and the research project as a whole is multiple-case study. According to Yin (1994) case method is appropriate especially in studies, which aim at finding out, why and/or how events under investigation have occurred. The study aims at investigating the research phenomenon on evidence built on different information sources, which is characteristic for case studies.

The survey method, employed in majority of the studies focusing on operations of foreign enterprises in the Russian market, was not considered as appropriate for the

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purposes of this particular study. This is due to the goal of the study, which is not to get generalizable information on a large sample of respondents but a more comprehensive picture on the operations of selected companies. Therefore, the choice of qualitative case study method can be justified as follows. First, information gathered by extensive questionnaire surveys is often of superficial nature and does not provide in-depth understanding on the phenomenon. Second, the experience has shown that enterprises are reluctant to participate questionnaire surveys. Low response rates are especially problematic, when the population under study is small, as in this case. Furthermore, as the nature of Western-Russian production alliances is a new, rather uninvestigated phenomenon, instead of constructing a structured survey questionnaire, we consider more appropriate to approach the research phenomenon by open-ended questions to the enterprises. Interviews reported in this paper aimed at constructing a picture on various experiences of the Russian operations of the Finnish case companies.

The paper brings together empirical data collected in eight metal industry SMEs located in the Finnish province Southern Savo. Research was organized around face-to face interviews with CEOs of the case companies in December 2000. The case companies were selected among the customer database of the Small Business Center (SBC) of Helsinki School of Economics and Business Administration (HSEBA). The personal experience of the SBC personnel appeared to be very valuable for the study, since it guided the researcher to companies, which would not have been selected otherwise. For example, information on companies having failed in their relations with Russian subcontractors, would have been almost impossible to find by any other selection method. Due to the delicate nature of information gathered from some of the companies, a few of them insisted to stay anonymous. Therefore, in the case descriptions presented in detail in Karhunen (2001), the companies are referred with fictional names and scant information is given on their operations other than those in Russia.

The interviews were semi-structured in nature, that is, the researcher had a list of questions addressing the companies' (international) subcontracting operations in general and in Russia in particular, motives for starting subcontracting in Russia, partner selection criteria, problems during the negotiations and actual relationships, and

knowledge transfer to the Russian partner. Although the study did not aim at generalization of the results, certain patterns and common themes could be found in the data.

For seven of the eight case companies studied in this paper, the alliances under discussion are of subcontracting or processing nature, whereas one of the case companies has considered entering the Russian market by licensing. A summary of the case descriptions is presented in Appendix 1.

4. INTERNATIONAL SUBCONTRACTING AS AN OPERATION MODE

International subcontracting represents one of the non-equity international operation modes of a company. According to the traditional stages model, internationalization is described as a gradual process, where a company starts its foreign operations from non-equity modes, such as exporting, which require less commitment than equity modes of operation (see, for example, Luostarinen 1984). According to the stages model, internationalization can occur either in inward (e.g. import) or outward (e.g. export) direction. The use of foreign subcontractors has elements of both inward and outward internationalization. (Korhonen 1999) The use of international subcontractors can be either a pre-stage for establishing own production unit in the country in question, or merely import of components, depending on the nature of the subcontracting activities.

The subcontracting activities of our case companies in Russia have elements of both inward and outward internationalization. There are companies, which supply of components in Russia is motivated by lower production costs. For them, subcontracting in Russia is a mode of inward internationalization, since the components manufactured in Russia are imported back to Finland. These companies are interested neither in selling their products to the Russian market, nor in engaging in own manufacturing in Russia. On the other hand, some of the case companies were interested in gaining a market share in Russia and they used a Russian subcontractor to assembly the products. In their case the subcontracting activities represent outward internationalization, as an alternative for export or own manufacturing subsidiary. Interestingly, in the sample movement into both directions on the internationalization path was taking place. One of the companies is moving 'backwards', as it already has a fully owned assembly unit in St Petersburg and is now searching a Russian subcontractor for component manufacturing. Another company is following the traditional path by considering the replacement of its Russian subcontractor by own manufacturing unit.

In the Finnish metal industry, which the case companies of this study represent, international subcontracting is a constantly increasing trend. In her study on the internationalization of the subcontracting of Finnish metal industry, Penttilä (1992) divides the reasons behind this into two main groups: company-specific factors and changes in the business environment. Among the company-specific factors are the need for improving own competitiveness, willingness to enter new markets, completion of own product range and improvement in flexibility of the company. Changes in the business environment are factors, such as international differences in labor, raw material and other production costs, increasing competition in labor-intensive industries, increase in international trade and international operations of companies, and movement toward project and system supplies in the marketing of capital goods. According to Penttilä (1992) the most important reasons for internationalization of subcontracting activities of Finnish metal companies are:

- Global sourcing policy of the company, according to which geographical location is not a criterion when selecting supplier,
- cost advantage of the foreign supplier,
- lack of supply for the product or service in question in Finland,
- policy to create competition for the domestic suppliers, and
- need for parallel supplies in order to secure continuos supply of components of strategic importance.

However, the existence of the international dimension in the subcontracting relationship increases the challenges faced by both customer and supplier. In general, the success of a subcontracting relationship is mostly dependent on both choice of the partner and the

ability to create a good working relationship between the partners. Previous studies indicate that problems occurring in an international inter-enterprise relationship may be either of operational or cultural nature (Arino et al. 1997). According to Penttilä (1992) problems between Finnish metal companies and their international subcontractors are most often caused by long psychical distance resulting in prolonged delivery times and unreliability of the subcontractor. Other reasons mentioned by the companies studied by her were the fluctuating and/or insufficient quality, and differences in business culture and cultural differences in general, such as, differing business practices and language problems.

5. SUBCONTRACTING IN RUSSIA

The potential for subcontracting in Russia has been the subject of scant studies (e.g. Lanu, 1993) and the actual subcontracting operations of Western companies in the CEE have also received attention of only few case studies (see, for example, Hallberg and Seyed-Mohammed, 1999). However, East-West production cooperation has been extensively researched in the case of joint ventures and it might be expected that the results of these studies are to a certain degree applicable to subcontracting relationships as well. In this chapter the lifecycle of subcontracting is approached by mirroring the empirical results against the existing literature.

5.1 General Conditions for Subcontracting in Russia

Lanu's (1993) thesis on the subcontracting potential in Russia discusses factors to be taken into account when planning subcontracting in Russia. Among these are factors related to the transitional business environment, enterprise-level factors and productrelated factors. As it comes to the business environment, the subcontractor may face problems related to the inadequate infrastructure, for example, there may be discrepancies in the energy supply or delays in material supplies. The enterprise-level factors are faced already in the search of a potential subcontractor and its evaluation. The Russian enterprises are not transparent and getting objective information on factors, such as the ownership structure of the company or its financial situation, is often impossible. Therefore, evaluation has often to be based on subjective criteria, such as an assessment of the company's premises, equipment and products. Furthermore, among the product-related factors are questions related to the quality and availability of raw materials, and quality of the end product. As Lanu (1993) points out, the perception of quality in Russian enterprises may still suffer from the Soviet legacy. In the planned economy, production was measured by quantitative goals and the quality was of minor importance. Therefore, the product or component was considered to be of sufficient quality, if it functioned and fulfilled its purpose. The outlook of the product was of minor importance.

According to Lanu (1993) the differing business practices reflect also in the pricing of the supplies and the meaning of contract. As it came out also in the interviews made by Karhunen (2001), due to their inadequate accounting practices the Russian enterprises may not have a realistic perception of their production costs. Therefore, they may price their products according to a 'catalogue price', the price for the same product manufactured by Western enterprises. On the other hand, due to their lack of experience in market economy, many Russian managers fear to be cheated by Western companies (Törnroos and Nieminen 1999), which makes them cautious. As it comes to contracts, Russians are used to multiple-page contracts detailing all possible aspects related to the issue under contract (Lanu 1993). Paradoxically, often the contract has little meaning in case problems between parties occur.

5.2 Motivations of Western Companies to Start Subcontracting in Russia

As discussed in the earlier chapters subcontracting in Russia is viewed in this paper as a form of international alliances. Motivations to enter (international) alliances have been explained in the literature from various theoretical perspectives. According to the *international business perspective* alliances are viewed as a temporary mechanism for the expansion of MNEs. Alliances are used to cope with national political restrictions,

expanding presence on the target market, and capitalizing on firm-, partner- and alliance-specific advantages. Much of the work in international business has incorporated arguments from transaction cost economics focusing on the focal firm and its motivations. (Osborn and Hagedoorn 1997) Studies from *corporate strategy perspective* have listed types of alliances according to motivations, such as cost reduction, market penetration, learning and technology development (Kogut 1988).

In the studies from *technology and learning views* of alliances a central question is the participants' mutual adjustment to changing technological conditions. It is stressed that alliances are more common in fields where technological challenges are faced more often. (Osborn and Hagedoorn, 1997) Logically, this view is most applicable for explaining international technology alliances. Furthermore, the learning view streams for the idea that for companies entering alliances learning is more important than reduction of transaction costs (Osborn and Hagedoorn 1997). The learning view has been applied in studying the motivations of Western companies in the CEE markets as well (Törnroos and Nieminen, 1999). However, we suggest that although learning may be among the motivations of entry to CEE, it is not sufficient if the entry cannot be justified by current or future profitability of the operations.

According to Marinov & Marinova (1999) general motives of Western companies investing in CEE are dominated by market-seeking ones. They refer to an OECD study (1994) according to which the four main motivations to invest in CEE are access to large domestic markets, gaining market share, low cost of production, and access to raw materials. In addition to these motivations especially multinational companies enter CEE for strategic reasons, as they consider that presence in CEE is an elementary part of their global position (Nachum 1999). Motivations for Western companies entering alliances with Russian partners can be expected to be found among these as well.

The case companies of this paper have two main motivations to enter into a production alliance in Russia. First, most of the companies interested in subcontracting or processing in Russia are motivated by cost reduction. Second, for some of the companies subcontracting or licensing is used to get the company's products in the Russian market. This is true for products, for which customs barriers are so high that to be competitive in the Russian market, assembly has to be made in Russia. As it comes to other motivations, Russia as a source for raw materials is not considered as relevant by the companies. The quality of Russian metals is seen as insufficient or too fluctuating for the products of the case companies.

5.3 Partner Selection Criteria

Although alliances are a widespread mode of operation, existing studies have reported a high level of dissatisfaction with the alliance outcomes relative to the expectations of the partners. As a result, the dissolution rates of alliances are high. Therefore, when the decision to enter alliance has been made, the partner selection becomes critical. (Hitt et al. 2000) In addition to defining the motivations of the own company, at the partner selection stage it is critical to understand the objectives of the partner. The partners often seek different benefits from the alliance, for example, one of the partners may seek growth, whereas the other is looking for quick financial returns. (Dacin, Hitt and Levitas 1997)

Partner selection criteria employed by companies entering alliances, mainly joint ventures, has been a focus of several studies. The best known attempt to conceptualise the partner selection criteria was made by Geringer (1991), who divided the partner selection criteria in joint ventures into partner-related and task-related criteria. The partner-related criteria include factors, such as national culture, past experience, size and structure of the partner. The task-related criteria include technical know-how, financial assets and managerial experience of the partner, as well as possibility to access new markets with the partner.

Arino et al. (1997) have studied the partner selection in West-European-Russian joint ventures from the point of view of the Western partner. According to their empirical results the partner-related criteria has more weight for the Western companies than task-related criteria. An important factor is the reputation of the Russian partner, because the

objective evaluation of Russian companies is difficult. Important are also the partner's position within the industry, its professionalism, honesty and seriousness, and fit between the companies.

The empirical data of this study gives somewhat contradictory results to Arino et al. (1997) as it comes to the weight of various partner selection criteria. For almost all of the case companies task-related criteria, in particular the technical competence of the partner, are most important. Partner-related criteria, such as the partner's background and reputation, are considered less important. Most of the companies do not care who owns the company, as far as it is technically competent to accomplish the tasks needed. This is true for especially those companies, which are motivated by cost reduction. On the other hand, a case company attempting to sell a license to a Russian company terminated the sale because of the unclear motivations and background of the Russian company. Therefore, the criteria employed seemed to be linked to the motivation of the Finnish company. The companies assembling in Russia for the local market, stress the market position and reputation of the Russian partner in addition to its technical competence.

The alliances in case are all of non-equity nature. Therefore, the contradiction to Arino et al. (1997) study is probably at least partly explained by the ownership factor. It seems natural that companies, who make a financial investment into the alliance, are more interested in the partner characteristics than companies, which do not put equity into the venture.

5.4 **Partner Expectations and Alliance Outcomes**

According to Hitt et al. (2000) selection of a partner does not occur in a vacuum, but it is embedded in the political, economic and social context of the alliance (partners). Therefore, expectations from the partner and thus the partner selection criteria differ in firms from developed and emerging economies. These differences in the partner selection criteria have been explained on the basis of the resource-based view and organizational learning perspective. It is proposed that firms seek partners that have resources they can leverage, or exploit. Critical issues are the complementarity of the partners and learning from the partner. The types of the resources companies are seeking for differ with the market (or institutional) context.

The institutional context, in which the alliance is embedded includes several factors, which shape the partners' expectations from the alliance. First, the cultural heritage of the partners reflects in their managerial ideologies. Second, the level of economic development of the home countries varies. Partners from developed economies seek usually market opportunities, access to knowledge on customs, business practices and political connections, whereas companies from developing economies seek access to technology, export opportunities and opportunities to gain international alliance experience. Furthermore, government support and foreign investment policies of the host country of the alliance may motivate certain forms of operation. (Dacin, Hitt and Levitas 1997)

The expectations of the partners and their fit are critical to alliance outcomes. According to Fey (1995) the most common cause for East-West joint venture failure is the misunderstanding about the roles or goals of the partners. This is often caused by the fact that the partners have spent not enough time in negotiations at the stage of alliance formation. According to Meyer (2000) the success factors for Western-CEE joint ventures are compatibility of the objectives, mutual trust, and international business experience of the local partner.

Saxton (1997) has made an attempt to explain the impact of partner and relationship characteristics on the alliance outcomes. His empirical results show that the partner's reputation is positively related to outcomes. Other factors with positive effect on alliance outcomes, are commitment and shared decision-making. The degree of trust and commitment is a result of the partners' investment and involvement in the

relationship (Parkhe 1993). Strategic similarities between partners are also positively related to outcomes, but other similarities are not critical. (Saxton 1997)

The study of Arino et al. (1997) reported problems occurring in Western-Russian joint ventures in orientation towards results, and differing expectations from the joint venture. There were also differing business practices in the areas of price setting, investment policies, cost analysis and control, quality control, and understanding the organizational structure. Furthermore, it was reported that the Russian partners were often unwilling to make investments.

The success of the alliances of the case companies has been modest. Attempts to form alliances with Russian partners have failed in some cases already in the negotiation stage. In one case the Finnish partner has cut the subcontracting relationship due to problems associated with quality. The reasons for failure in general are those found in the previous studies. Most often, the partners have different perceptions of the alliance and their contribution to it. Problems occur due to differing perceptions of pricing, quality, delivery times, and the meaning of contract. However, in successful subcontracting relationships technical problems are solved jointly with the Russian partner. This requires strong commitment to the subcontracting relationship from the Western partner. The degree of commitment to the alliance seems to be related to the motivation of the Finnish partner. Companies, which start subcontracting to save production costs, may prefer dissolution of the alliance over attempts to work out the problems. On the other hand, companies that are oriented to the Russian market, are more willing to stay in the alliance and try to solve the problems.

5.5 Knowledge Transfer through Subcontracting

One essential element of Western-CEE alliances is knowledge transfer. The knowledge transferred may be either technology or managerial know-how. Due to the legacies of socialism the CEE companies are production- and technology-oriented, and in a great need for management and marketing skills. Co-operation with Western companies is

seen as one way to acquire these skills. In the study by Arino et al. (1997) contributions expected into the alliance from the Russian partner were industrial facilities and production capacity, market access, access to key raw materials and labor force. The Western partner was expected to provide knowledge (technical, marketing, management) transfer and financial resources.

The knowledge transfer in alliances can occur either in one or two directions. According to Radosevic (1999) in alliances, where partners are complementary, it involves exchange of R & D, technology and production know-how, or finance, marketing and organizational capabilities. In dependency-based partnerships, such as subcontracting, transferred are competencies required for closing productivity gap.

According to the study by Marinov and Marinova (1999) CEE company motives for getting foreign investment are a need to acquire assets (Hooley et al. 1996), such as financial and managerial resources, access to investor's own markets, technical assistance, and strategic assets such as foreign products and brand names. However, when they studied these host company motives and their achievement, empirical results showed that the getting of financial resources was important and achieved quite well, but the achievement of gaining marketing and managerial expertise, and entrepreneurial skills was below expectations. This result is reasoned by the authors by the fact that acquiring this type of skills takes a long time.

However, knowledge transfer does not occur automatically in the relationship. The degree to which learning actually occurs depends on the willingness of the Western partner to share and the absorptive capability of the CEE partner. (Hitt et al. 2000) Osborn and Hagedoorn (1997) note that the ability to discover knowledge and implement it vary under different administrative forms of alliances. According to this view non-equity forms of alliance are more fruitful platforms for information exchange and learning.

Contradictory evidence is provided by Mowery et al. (1996), who studied inter-firm knowledge transfers within strategic alliances. These alliances vary form unilateral

contracts (technology for cash) such as licensing, and contractually based arrangements such as technology sharing and joint development to pure equity joint ventures. According to the study equity join ventures are more effective than contract-based arrangements such as licensing in technology transfer. Furthermore, lower level of transfers occurs in unilateral contracts than in bilateral non-equity arrangements. As a precondition for technology transfer these authors as well mention the importance of absorptive capacity, which depends on the pre-alliance relationships between the partners, their previous technological capabilities and experience in R & D.

As it comes to management transfer, Meyer (2000) has pointed out that the distinctiveness of the CEE business systems limits the transferability of Western business strategies and organizational concepts. Lang (2000) has proposed the institutional approach as an alternative framework to study management transfer into CEE. The idea of the institutional approach is that when transferring Western practices and institutions to CEE, old institutions and practices cause incompatibility problems, which lead to re-interpretation and modification of the original concepts. As a result new, culturally embedded management practices emerge. In the early euphoria of transition Western models were seen as superior and it was thought that they should be transferred to the CEE as such. This way of thinking ran to crisis because attempts to copy the Western practices as such was not very successful. Because of the institutional context, technical and instrumental concepts are transferred easier than culturally embedded practices (Wilkens 1998, ref. Lang 2000).

In the case companies willingness to transfer knowledge, either technology or managerial, is low. Most of the case companies say that their subcontractor should have the necessary technical competence to accomplish the subcontracting task. They are not willing to 'teach' the subcontractor. As it comes to the direction of transfer, in one of the cases the Finnish company is looking for the partner, who would have superior technologies. In another case, a criterion for the subcontractor is that its level of technological development allows bilateral technology transfer.

Technology transfer has occurred in only one of the cases, where the Russian partner was provided with the technology and assistance in the exploitation of it. This particular Finnish company is selling to the Russian market. However, even this company is reluctant to enter into management transfer. The standard reason for lack of interest mentioned by the companies is the scarcity of resources. Small and mediumsized companies do not want to engage into such activities, that is management transfer, from which they do not get immediate financial gain. This is especially true for those companies, whose subcontracting in Russia is motivated by cost savings.

As it comes to the expectations of the Russian partner, the companies mention often that they were interested in using the Finnish partner's connections to get their products to the Finnish market. This attempt is not supported by the Finnish companies, due to the same reasons as their reluctance to management transfer. As one company puts it, 'we are not a trading house'.

When discussing the empirical data against the former mentioned literature, it seems that an important precondition for technology and especially management transfer is ownership. In subcontracting alliances management transfer is not likely to occur, and technology transfer to only that degree that is needed to accomplish the subcontracting activity. A main obstacle for transfer is the Western partner's unwillingness to share, which is caused by the lack of resources. At least among our case companies, altruism was not found.

6. SUMMARY AND CONCLUSION

The empirical data of the case study indicates that in general, the case companies find technical competence as more important than other task-related criteria when selecting a Russian partner. However, the selection criteria should be seen as related to the strategic motivation of the Finnish partner. Companies, for whom subcontracting in Russia is

used to access the Russian market, pay more attention to the partner's local market knowledge, reputation of the company, and position in the market. In these cases, the relationship includes also technology transfer. On the other hand, companies, whose motivation to start production in Russia is based on cost savings, are solely interested in the partner's technical capacity to accomplish the tasks needed. They are not concerned about the Russian partner's background. None of the case companies is interested in getting its products into the Russian market through the partner, partly because they do not consider the Russian partner competent in marketing.

The problems arisen during the partnership can be divided into task-related and partnerrelated ones. Most common problems are associated with the quality of the product, and delivery times. Partner-related problems include misunderstandings between the partners, such as unrealistic perceptions considering own contribution to the relationship. Task-related problems are often managed to be solved, whereas partnerrelated problems lead to dissolution of the alliance, or are an obstacle for the alliance formation.

This paper attempted to integrate the various aspects of alliances from partner selection to the outcomes of the alliance. Several conclusions to be tested in the further Western-Russian cases could be made. First, it seems that the very nature of the alliance is related to the strategic motivation of the Western partner. When the Western partner is strategically oriented to the Russian market, it is more committed to the partnership. When the decision to produce in Russia is based on cost savings, and the company is not interested in getting its products to the Russian market, the cooperation between partners is limited to the transactions needed to accomplish the production.

Second, the strategic orientation of the Western partner to the Russian market seems to be a precondition for technology transfer occurring in the partnership. In strategic partnerships the partners cooperate in product adaptation and technology is transferred to the Russian partner. In cost-saving type of partnerships neither technology transfer, nor product co-development is involved. Third, it is proposed that the type of the partnership defines, which partner selection criteria are applied by the Western company. The weight of partner-related criteria increases with the commitment of the Finnish partner. When the decision to produce in Russia is solely based on cost savings, task-related criteria are found most important.

Fourth, it seems that partner-related problems arising during the negotiations on cooperation and existing relationship lead more often to the dissolution of the partnership or breaking of the negotiations, than task-related ones.

The empirical data of this paper was limited to non-equity modes of alliances. However, on the basis of existing literature it can be concluded that ownership is a very central factor in alliances. It seems that management transfer does not occur without ownership. In further cases, joint ventures will be included in order to incorporate the ownership factor into the analysis. Another limitation of this paper was that it presented only the view of the Western partner. In order to get a more comprehensive picture on the phenomenon, the additional cases will include the view of Russian partners as well.

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Table 1Summary on the Results of the Case Study

Case	Product / Field	Motive for Starting Operations in Russia	Type of Operations in Russia	Problems associated / Reason for Failure	Partner Selection Criteria	Interest in Knowledge Transfer	
						Management Transfer	Technology Transfer
A	Infrastructure products	Cost reduction	Negotiations on production JV terminated	No agreement on distribution of financial investment with the partner	Technical competence	No	No
			Test parties of components subcontracted	Insufficient quality			
В	Heating systems	Market entry (customs barriers)	Wholly-owned assembly unit Subcontractor for components under search	Fluctuating quality, bureaucracy, meaning of contract	Technical competence	No	No
С	Heating systems	Market entry	Search for partner for marketing and subcontracting terminated	Reliable information on companies not available	Reliability, financial condition, market and product knowledge	No	Yes, in the form of technology exchange

Table 1 continued

Case	Product / Field	Motive for Starting Operations in Russia	Type of Operations in Russia	Problems Associated / Reason for Failure	Partner Selection Criteria	Interest in Knowledge Transfer	
						Management Transfer	Technology Transfer
D	Transportation equipment	Market entry	Negotiations of licensing of a technology terminated	Unclear background and motives of the buyer, payment arrangements	Interest in technology development	No	Yes, in the form of licensing
E	Energy systems	Market entry (customs barriers), cost reduction	Subcontracting of assembly	Quality, delivery times, unrealistic self-evaluation of the Russian partner	Technical competence, market position	No	Yes, in the start- up phase of the production
F	Machine- building	Cost reduction	Ongoing search for subcontractor for components	Limited resources of the own company, language barrier	Technical competence	No	Yes, in the start- up phase of the production
G	Pronssivalutuott eet?	Cost reduction	Subcontracting of phases of production terminated	Quality, delivery times, unrealistic pricing, corruption	Technical competence	No	No