FULFILLING THE WORLDWIDE SUSTAINABILITY
CHALLENGE: STRATEGIES, INNOVATIONS, AND
PERSPECTIVES FOR FORWARD MOMENTUM IN
TURBULENT TIMES

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FORWARD

The purpose of the conference is to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations of new challenges in global business and technology: strategies, policies and issues.

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A successful conference could not be possible without the special cooperation and care of the program committee members. Furthermore, many thanks go to the reviewers for reviewing the many papers that were submitted to this conference.

The last but not the least important acknowledgement goes to all these who submitted their work to be considered for presentation at the conference. Also, special thanks to the session chairs and discussants for taking the extra time to make this conference a success.

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CONSTRUCTION COMPANIES AND BUSINESS NETWORKS IN RUSSIA

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ABSTRACT

Under the conditions of open innovations, technologies, knowledge and competences exchange which go beyond the borders, the nature of competition between the companies acting on different national markets has undergone changes. The establishment of long-term trusting relationships with local organizations and communities becomes one of the primary challenges for companies entering new markets. This article describes the results of a research of Finnish companies working in the Russian construction sector. The author defines the role of network aspects in companies’ strategic processes and illustrates how strategy and cooperation vary according to construction project stages.

NETWORK ASPECTS IN STRATEGIC MANAGEMENT

As the companies pass the borders, so do interorganizational ties becoming full-fledged players on the international markets. Achieving and preserving competitive advantage is hardly possible without experience, knowledge and best practices exchange between the companies’ representatives as well as internal organizations. Under conditions when developing strategic partnerships is one of the obligatory factors for a company’s success, developing and implementing strategies for business expansion outside the national market require considering new factors which reflect the type of cooperation with the network partners, institutional and industry-specific peculiarities.

Construction sector is a strategic sector of economy. It represents a system of jointly working branches of material production which ensure the construction process. Historically, the construction complex has been characterized by a number of ties existing between companies, institutions and governmental authorities which predetermine the results of joint projects. Together with international construction companies, engineering and design bureaus, foreign suppliers of equipment and materials enter the Russian market. The issues of companies’ management in the situation of a great number of various types of cooperation and development of strategic partnerships come on agenda.

The existing researches in the field of developing international strategies evaluate the importance of interfirm cooperation in the sphere of decision-making process. However, the fragmentary types of research works, obscurity of their practical application make it impossible to form a unified approach to forming and choosing strategic alternatives on the new international markets.


Developing a network on a new national market largely depends on the strategies (corporative, business and functional ones) of the headquarter company, implementing of which influences in its turn the choice of partners on a specific market. The strategy of a network level acts as an integral one (de Witt, Meyer, 2005) linking separate elements of a strategic process into one whole (fig.1).
Within a framework of a company one can specify several networks in which the company is involved. Decisions related with cooperation in certain networks can be made on different management levels. Thus, a company may be a part of one or several, which is more often, networks. If the organization is diversified, each of the businesses can act within their own network. And finally, some of the subdivisions, for instance, R&D or marketing departments, can develop relations within a framework of cooperation with research institutions or consulting agencies. That is why a network level strategy unifying different networks has a complex compound dynamic structure, and networks between external and inner networks of a company influence implementing of the strategies of all the levels.

**Fig. 1 The role of network strategy in strategic processes of a company**

In spite of a large number of publications dedicated to the issues of cooperation, the mechanism of including network relations into the company’s strategies has been given almost zero attention. This article would attempt at including the network aspects of management into a company’s strategic processes.

**METHODOLOGY**

The article reflects the results of the research of Finnish companies working in the Russian construction sector. It specifies the peculiarities of companies’ strategic processes (making decisions and taking action) when business expands beyond the national borders. We use the definition of a business network as a model of cooperation between firms and institutions. Factors influencing choice of globalization strategies and legal and organizational forms of their implementing, establishing and developing partner relations when developing foreign markets, as well as decisions on strategic control of international branches (affiliates), are given with consideration for the role of strategic context. National, regional, industry-specific and interorganizational conditions of doing business are examined as contextual factors.

The research is based upon a complex of quality and quantity methods of data analysis. Tools of quality analysis include structured interviews with medium-level managers and executives in Finnish building companies and their Russian affiliates. The interviews featured 40 questions on different issues of the company activities which influence strategic process. In addition to the interview we used companies’ inner documents as well as secondary information: companies’ sites, materials of World Economic Forum and World Bank.
RESEARCH FINDINGS

The results obtained in the research make it possible to conclude the following: expanding a model of partnership cooperation on the Russian market is obstructed by barriers which appear due to considerable difference in institutional, economic, socio-cultural factors, legal regulations and standards.

Barriers to developing network in Russia

The results obtained in the research make it possible to conclude the following: expanding a model of partnership cooperation on the Russian market is obstructed by barriers which appear due to considerable difference in institutional, economic, socio-cultural factors, legal regulations and standards.

Level of technology development, dynamic integration and participation in global processes while preserving national interests make Finland rather an information society country. Key peculiarities of such society is generating knowledge with help of information technologies, implementing network relations in different industries, developing infrastructure for an effective performance of a network. The Russian economy is currently at the development level typical of an industrial society. Characteristic features of this level are traditional market mechanisms and more strict organizational structures.

Considerable differences between Scandinavian countries and Russia also consist in underdevelopment of financial, social and legal institutions the goal of which is to ensure contracts executing, investors, intellectual and other property protecting, as reflected in World Bank’s Ease of Doing Business index, where Russia is ranked 120, and Finland 16.

Differences in the development of institutions bring about difficulties related to intransparency of tenders and building orders procedures. Moreover, the business stability is threatened by a high level of corruption and economic crimes especially in the construction sector, as noted by the interviewers and reflected in a number of foreign and domestic researches. Transparency International agency ranked Finland as the world's fourth least corrupt country, Russia – 154 out of 180, and the situation in Russia has a tendency to worsen. Intransparency of management conditions while receiving orders, especially municipal ones, obstructs implementing joint programs on regional and city modernization.

Institutional socio-cultural conditions of doing business predetermine differences in firms’ behavior in forming partnerships on the Russian and Finnish market. Finnish companies are mostly oriented towards relational contracts - business relationships of trust between the parties when the contract is not formal. On the contrary, Russian companies aim at setting up regulations of joint activities prior to beginning of works and overseeing every possible detail of a future project. Thus, a paradox appears, when relations with local, regional and governmental authorities are strictly regulated and transparent in Finland and other Scandinavian countries, while in Russia this is a sphere of informal relations with a high degree of intransparency and corruption. At the same time the rules of network cooperation adopted by the foreign companies and based upon trust within the partner cannot be implemented due to cautiousness of Russian companies in the beginning of joint business.

As construction complex has regionally specific, the noted factors appear differently in Russian regions. However, the research shows that practically all respondent companies establishing partnership strategies come from peculiarities of national culture and socio-political situation in Russia, not taking into account specific situation in separate regions and cities.

From the position of strategic management and control over affiliates there appear difficulties brought about by legal regulations and peculiarities of the law regulating business of foreign companies on the Russian market. Central-office companies evaluate foreign affiliates in the view of organizational hierarchy, limiting its rights and obligations from the viewpoint of the position of a given business unit in the whole system of the company. However, in accordance with the law on Foreign Investments in the Russian Federation, the representatives of the company are separate legal entities, and their directors are entitled with all the rights and obligations of general directors. This results in a problem of discrepancy between management and legal structure which causes not only difficulties in personnel management but also obstructs forming and implementing partnership.
Conclusions made by the author are given proof by the empiric research which allows it to single out major factors obstructing doing business in Russia (fig.2). The following barriers were identified by the respondents:

The analysis of companies’ strategic processes shows that decisions for network cooperation are of tactical character and are independent from the general strategy of the company. Finnish companies entering the Russian market are oriented at long-term contracts without building a network, at the same time recognizing the importance in interorganizational cooperation and its influence on the whole activity of the company. Thus, the analysis shows the necessity of developing a complex model of a strategy of expanding business outside the national market which would take into account not only external context factor, but also a structure of inner cooperation between the affiliates of the company, as well as influence of different groups of partners.

**Fig.2 Barriers for doing business on the Russian construction sector (percentage of respondents)**

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty of personnel management</td>
<td>31</td>
</tr>
<tr>
<td>Differences in industry standards and regulations</td>
<td>40</td>
</tr>
<tr>
<td>Lack of trust of the Russian partners</td>
<td>70</td>
</tr>
<tr>
<td>Intransparent organization of tenders</td>
<td>88</td>
</tr>
<tr>
<td>High level of corruption</td>
<td>89</td>
</tr>
</tbody>
</table>

**Strategy transformation of a construction company**

Two main alternatives can be pointed out from the perspective of provided products and services (Bartlett and Ghoshal 1995):

1. **multinational** strategy, based on account and usage of specific national features of concrete segments on the world market
2. strategy of **globalisation** providing application of standardised approach towards realization of competitive advantages with negligible changes in relation to national markets.

The choice of strategy is defined by two major factors: possibility of standardization of world market and efficiency of economy of scale. Implementing these strategies, a company makes decisions on degree of core competences’ centralisation, considering requirement for coordination and bureaucratic costs (Morrison, Ricks and Roth 1991).

The research tackles distinctive features of each stage of a building project in regard of two factors: necessity of global integration and consideration of local differences.

One of the specified features of construction sector is a project type of business. The composition of factors influencing an international strategy of construction companies is subject varies at different levels of a project. Five stages of a building project can be defined: preconstruction, contract award, building and construction works, exploitation and substantial completion.

At the stage of preliminary preparation receiving the very order for building a project becomes the crucial factor. Not only the political decisions of the receiving part are of great importance, but also the influence of the local public authorities which can either support or obstruct the whole project. The other crucial aspect appearing at this stage is the projects’ funding. Local resources are not always enough for implementing large-scale projects especially when entering the markets of developing countries. In some cases there is a necessity of receiving an access to the international financial and investing groups. Conversion of part of the funds into local
currency, legal tax restrictions, profits transfer into the basing country, credit security, country-specific risks also shift the international strategy to the deeper consideration of local factors.

Despite the fact that building standards differ, the access to the more advanced building technologies is crucial for obtaining the contract. One of the reasons of the investments increase of the developing countries to the developed ones is the access to unique technologies and growth of competitiveness when most technologically developed companies enter their markets. Some specific projects require strengthening relations with local institutions for the venture’s success. At the same time large projects require established connections between two or several national institutions in order to gain access to the funds or other resources for better stability of the competitive advantage. Thus, at the stage of preliminary preparation of the project both global integration and consideration of local differences are of importance.

At the stage of signing contracts, despite the synergy of standardization processes, local-specific factors prevail. The budget would mainly include local component parts and units, including raw materials, equipment and human capital. Although tenders require global resources, for example, in case of inviting international banks, the core of decision remains at the receiving country. Signing the works contracts, negotiations and organizing work also take place at the building site.

Building and operation of the objects include project managing, resources distribution, works production, composition of a system of measurements and evaluation parameters, supervision and training the personnel. This stage is influenced by local factors. Global integration is necessary only for securing communication between affiliates and providing some technical services.

At the stage of building commissioning maintaining partnership relations with local business communities and customers remains important as the strategy presupposes not only single projects but expanding the number of building objects in the receiving country. Thus, cooperation has a cyclic character as they help to receive orders in future and bring the process back to the initial stage.

The analysis of possible international strategies shows the importance of the factors, global integration and consideration local differences, at each stage. However the degree of their influence varies depending on the building process stage and is of a cyclic character.

Following the global strategy, a building company focuses on distribution of its resources and receiving synergy from their usage. At the stage of preliminary preparation the company emphasizes the importance of lobbying the national government for the company’s interests, inviting international financial institutions, centralized purchases and international transfer of technologies and best practices. The stage of building project estimation and commissioning is performed by one of the foreign affiliates of the company in the receiving country. The requirements of the work with partners and clients are often standardized.

Multilocal strategy presupposes more independent activities of the affiliates. At the stage or preparing the project strategic priorities are aimed at receiving support from the local government, usage of local financial funds, inviting local companies for executing exploration and design works. However general planning and developing standards takes place in the head office.

Multinational strategy is characterized by a high degree of decentralization of operations, including marketing and financial ones. Each foreign affiliate possesses unique knowledge and technologies necessary for this competitive market. All stages of building are controlled and implemented by the company’s affiliates with the usage of local resources and firms.

Transnational strategy combines the characteristic features of the both strategies with maximal consideration of the local differences and usage of global integration synergy. In practice following this strategy is connected with considerable expenses and difficulty of managing the affiliates in different countries.

Thus, despite following one of the international strategies, the correlation between the arguments in favor of either globalization or consideration of local differences is subject to change depending on the building stage.
DISCUSSION AND CONCLUSION

Simultaneously with the transformation of international strategy the priorities in establishing partnership relations also change. Depending on the specific features of the market and singled out obstacles, possible structure of partnerships can be singled out. The building companies are pressed by the deadlines of project completion, therefore it is necessary to build stable relations in the framework of creating the value (in accordance with characteristics specified in the model – relations of V type). The author specifies possible partnerships in the framework of each cooperation types (fig.3).

Quality control and control over the dates of the project completion require the company’s tough approach when selecting the contractor and designer. This is the reason to let the participants of the inner network – daughter affiliates of the head company the management control over the project. Simultaneously, the Russian construction market has a number of companies who have the knowledge on the requirements and standards in the constantly changing legislation. Therefore, local companies are invited to ensure access to the necessary strategic assets (licenses, knowledge about the market). Business sustainability is defined through access to financial resources and relations with insurance companies. Market of insurance for building works and the banking industry are in the formative stage, so when the company enters the Russian market it should firstly develop relations with representatives of foreign financial and insurance institutions. Establishing permanent relations with local authorities and regulators is one of the key components of doing business in Russia.

fig.3. possible partnerships in the framework of different types of cooperation
Building sector is characterized by a dozen of interrelations influencing the dates of building projects completion. Within a framework of a value chain complex interactions are being formed the participants of which can combine different roles. The interactions have both external and inner character, i.e. a corporation’s affiliate working at the certain marking or planning to enter this market can act in the capacity of the general contractor.

Correspondingly, the process of forming and changing a strategy should always have a structured and cyclic character and reflect not only changes of the inner environment but also the specific features of the industry in which the company acts.

Thus, the results of our research suggest the following conclusions. Specific characteristics of the business, in particular, project character of organization and management of works in the construction sector, limit choice of clients and suppliers after works beginning under projects. However, the stability of the partnerships within construction project promotes greater stability of construction companies in the financial crisis. The company international strategy, in particular degree of localization or globalization, changes depending on stages of the project and influences a choice of priority partners in the new market.

REFERENCES


