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Managing relationships with public officials – a case of foreign MNCs in Russia

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Abstract

Managerial behaviour in multinational corporations (MNCs) needs to be adapted to the different socio-political contexts where its business is conducted. For instance, in the emerging markets it is crucial to build relationships with various state actors. The objective of this study is to examine how MNCs manage their relationships with state actors in one emerging context: Russia. The paper focuses on the daily operations of managers when interacting with Russian public officials in two Finnish multinational corporations. It reveals the multidimensional complexity of the relations of the MNCs with the Russian State, and the consequent management implications. Management of relations with Russian public officials are not restricted to local subsidiaries headquarters and, but also involve other corporate subsidiaries and external actors such as customers, suppliers, intermediaries and auditors. The role of individuals, as key actors and as intermediaries, is brought to the surface. The study concludes that the complexity of the MNC should not be overlooked in studies on its relations with state actors.

Key words: MNC, MNC-state relations, Russia, public officials, business networks

INTRODUCTION

Foreign MNCs operating in emerging markets, such as Russia, are facing several challenges. Reports on Russia show the strengthening of state power, tensions between the state and different interest groups, widespread corruption, and heterogeneity in the implementation of state rules in different regions and on various hierarchical levels. Newspapers tell also about foreign MNCs' challenging encounters with Russian state actors. There is thus a managerial need for better understanding of MNC-state relations in Russia. Simultaneously, there is growing interest in research on firms' relationships with governments and other non-business or political actors (e.g., Hadjikhani 2000; Hadjikhani & Ghauri 2001; Hadjikhani & Thilenius 2005a; Hadjikhani, Lee, & Ghauri 2008; Bengtson, Pahlberg, & Pourmand 2009; Welch & Wilkinson, 2004). Given the fundamental differences between socio-political environments in the West and in the emerging markets, we need more understanding of the interactions between MNCs, state and society in the latter (Hadjikhani, Elg & Ghauri, 2012).

Consequently, scholars acknowledge the influence of non-business actors in business activities. Furthermore, firms' political activities are considered to support their business activities. It is not only a question of adapting to the socio-political climate; it appears that firms can influence their business market by means of proactive participation (Hadjikhani & Thilenius 2005a; Hadjikhani, Lee, & Ghauri 2008). In this study we adopt business network perspective in order to analyse MNCs. With regard to political actors, the business network theory argues against the passive role (adaptation) of firms in their relationships, against their homogeneous influence on firms (Jansson, Saqib, & Sharma 1995; Hadjikhani & Håkansson 1996; Hadjikhani & Johanson 1996; Hadjikhani 2000), and against the simplicity of the decision-making related to political activities (Hadjikhani & Sharma 1999).

While some studies concern MNC relations with non-business actors (e.g., Boddewyn 1988; Hadjikhani & Johanson 1996; Hadjikhani 2000; Hadjikhani & Ghauri 2001), only a few address MNC interactions with non-business actors outside developed economies. Among the early empirical contributions to this research stream, Hadjikhani and Johanson (1996) found that Swedish MNCs' relations with political actors played an operational role during market turbulence in Iran. Market turbulence created a strong imbalance in terms of market knowledge and market commitment. Despite the difficulties, the MNCs in question did not exit the country, and consequently forged better relations with political and commercial actors after the turbulence (Hadjikhani & Johanson 1996, 71). Only recently, scholars have paid more attention on the socio-political networks in the emerging markets, analysing how MNCs manage their business, social and political relationships (Hadjikhani, Elg & Ghauri, 2012). Empirical studies on MNCs in Russia highlight the central role that political and state actors play MNC operations. Elg, Ghauri and Tarnovskaya (2008) point to the importance of macro-level matching in the search phase of internationalisation, and to micro-level matching in the establishment phase. On the other hand, Jonsson (2007; 2008) emphasises the interplay of market, internationalisation and corporate knowledge, and discusses how the development of market knowledge might also be related to state actors.

In this paper we address the gap of analysing foreign MNC's relationships with Russian public officials by an empirical study. The theoretical framework derives from the literature on company and MNC management in business networks, and on the role of state actors in the business networks of MNCs. Our study contributes to the literature by investigating the daily operations of MNC management in the Russian context. In particular, we refer to the concept of a matching scheme (Heikkilä, 2011), which is based on the perceptions of individual actors.

The aim of the study is to examine foreign MNC–state relations in Russia from a managerial perspective. A managerial perspective indicates that the focus is on daily operational issues. Our empirical analysis is based on two Finnish MNCs operating in Russia. Public officials are mainly depicted as described by the respondents in the case companies, and no attempt is made to analyse the multilevel structure of the Russian state apparatus. The paper is structured as follows. After this introductory section we discuss the conceptual basis of the study. We then present the methodology of the empirical study. The empirical study investigates two MNCs operating in Russia. Analysis of the matching schemes in the two cases follows, and we end the paper by discussing the results.

CONCEPTUAL BACKGROUND

Our theoretical approach revolves around the concepts of business networks and matching, as well as considers the MNC complexity. We build on the literatures on management in networks and on embedded MNCs and their management. Our analysis focuses on state actors in the MNC's business network. In particular, we refer to the business-network theory. This theory has been expanded from (empirical) studies on buyer–seller relationships, to cover networks of relationships more broadly (e.g., Möller & Halinen 1999; Hadjikhani & Ghauri 2001; Welch & Wilkinson 2004). The network context of a firm comprises multiple actors, including customers, suppliers and competitors, the media, the government and other public agencies, specialists and associations. Competitors, government, other public agencies, universities and research institutions are positioned on the horizontal dimension, whereas suppliers, distributors and customers are on the vertical dimension (Möller & Halinen 1999).

Hadjikhani and Thilenius (2005b, 2009) also incorporate both horizontal and vertical connections into their model. Horizontal connections refer to competitors and non–business organisations, whereas vertical connections refer to suppliers and customers. The focus in the earlier work was on Iranian customers' relationships with foreign suppliers, and the authors incorporated non-business actors into their analysis. They found that political connections to government and bureaucratic organisations had a significant impact on the focal relationship with the foreign supplier. In the later publication they elaborate on primary and secondary functions in business networks. According to their findings, the primary function of a focal dyadic relationship relates to cultivating the business relationship or forging connections in the distributive exchange channel, whereas the secondary function concerns political, ancillary or competitive relationships, and strengthens the primary function (Hadjikhani – Thilenius 2005b; 2009).

Hadjikhani and Ghauri (2001) identify co-operative and relational elements of interaction, such as commitment and support, in the firm's relations with political actors, and depict political actors as supporting its activities or taking coercive actions against it. The difference between exchange relationships with business and non-business actors is suggested to lie in what is conceptualised as legitimacy: “Legitimacy of an actor is constructed on the surrounding actors' knowledge on how actor's performance preserves the rule of mutuality and maintains its own interest and that of others” (Hadjikhani, Lee, & Ghauri 2008, 914). Legitimacy is also seen as the main goal or objective of MNCs operating in the socio-political market (Jansson, Saqib, & Sharma 1995; Hadjikhani, Lee, & Ghauri 2008).

The study by Kosonen, Kettunen and Kotilainen (2008) analysed Finnish companies' ways of managing and adjusting to their social environment in Russia, Estonia and China. According to their study, the four key management issues related to managing relations with these states are: knowledge creation in terms of formal rules at different administrative levels in the host country, the setting up of network linkages to public officials, the importance of face-to-face contacts and the creation of trust between parties (Kosonen, Kettunen, & Kotilainen 2008).

Business-network research on non-business markets has focused on political actors (Hadjikhani – Thilenius 2005a). Political actors are referred to in some studies as “bureaucrats, government ministers, members of parliament, opposition parties, interest groups and the media” (Welch & Wilkinson 2004, 218). Other studies roughly separate non-business or socio-political actors from business actors (e.g., Hadjikhani & Ghauri 2001; Hadjikhani, Lee, & Ghauri 2008), or refer to them as “belonging to the non-market

environment” (Boddeyn 1988, 343). Recently, social actors, such as NGOs have been incorporated in network analysis (Ritvala & Salmi, 2012; Ljung & Bengtson, 2012).

Concepts such as political actors, non-business actors and non-market actors are challenging and often poorly defined (cf. Boddeyn 2003). The market and non-market distinction may also be challenging. For example, state actors are not only regulators, but may also be MNC’s customers. In order to tackle the challenges, the discussion in the present study concerns one specific group of state actors, namely public officials. Public officials are defined here as “a group of state actors with which the MNC is in contact in furtherance of its aims to comply with local, regional and federal laws and regulations related to daily/normal business operations” (Heikkilä, 2011, p. 44).

Welch and Wilkinson (2004, 218) define political activities as “actions and interactions of political actors and firms as they intersect with business”. From the business-network perspective a firm’s political activities have been pictured as an “essential and distinguishable part that supplement the business activities”, and high commitment and political knowledge have even been associated with positive outcomes and gains in the business sphere (Hadjikhani & Ghauri 2001, 273). There are ideas in common here with studies on lobbying (cf. Jansson, Saqib, & Sharma 1995; Hadjikhani, Lee & Ghauri 2008). Welch and Wilkinson (2004) further define political resources as comprising what firms hope to gain from political activity in the form of political goods such as contracts, licences, approvals, tax concessions and tariffs. The role of intermediaries in a firm’s relations with political actors has also been noted (Hadjikhani and Thilenius, 2005a; Bengtson, Pahlberg and Pourmand, 2009).

With regard to research specifically on MNC relations with political actors, Boddeyn’s (1988) paper is often referred to as seminal. He integrates political aspects into MNC theory (eclectic theory) and highlights the acceptance of non-market forces, thereby implying that market imperfections may be enacted through political behaviour. In relation to MNCs in salient industries, Doz (1976, III-81) states: “[c]orporate management has to recognize local authorities’ direct influence upon the management of its subsidiaries, and accept civil servants almost as part of the management”. Local subsidiaries and middle management together with higher-level management are key actors in maintaining relationships with political actors on behalf of the MNC (Jansson, Saqib & Sharma 1995).

While some earlier studies share our interest in relations between MNCs and socio-political actors, they tend to lack our managerial, practical perspective. Hadjikhani, Lee and Ghauri (2008) examine MNC relationships with socio-political actors from a managerial point of view. On the basis of their analysis of the socio-political behaviour of a Korean and a Swedish MNC in the EU, they depict MNCs as building trust, commitment and legitimacy among both business and socio-political actors.

Jansson, Saqib and Sharma (1995) found evidence of structural complexity in MNC contacts with government organisations in their study of a Swedish and a German MNC operating in India. The existence of several different government institutions with their departments and delegation of authority and responsibility was found to challenge companies. More importantly, MNC structural complexity is evident in MNC–state relations in the categorisation of foreign-subsidiary actors as of a high, medium or low level in relationships with government contacts in India. High-level managers had the role of door opener and legitimiser in this status-conscious country. There was frequent contact between the MNCs and the government representatives, which included face-to-face interaction. Non-personal

media were also utilised, and were considered complementary to personal contacts (Jansson, Saqib & Sharma 1995). The role of MNC complexity (Poynter 1982, p. 21) is considered here a relevant managerial issue to be investigated.

Dealing with different organizations in a foreign context calls for special knowledge and skills. For the Russian context, Hirvensalo et al. (2000, p. 50) propose a concept of the skill of social bargaining, referring to “the personal capacity of an economic actor (usually a local manager) to use negotiation and persuasion to influence key actors in a company’s context and thereby solve daily problems”. In some cases it is hard to draw the line between social bargaining and playing along with corrupt bureaucrats. Indeed, there seems to be a “grey zone” between legal and illegal actions (Hirvensalo et al., 2000, p. 56) and corruption is an issue often present in discussions of the Russian business context. The origins of corruption in emerging economies are found to be related to the legacy of communism, the rewriting of legislation, the redistribution of wealth, institutional voids, and international trends. Moreover, social norms explain different behaviour in different countries. Scholars analysing personal relations have struggled to differentiate personal relations from bribery and corruption (*blat* in Russia and *guanxi* in China) (Ledeneva 1998; Lovett et al. 1999; Xin & Pearce 1996). The following three qualities help to define an act of bribery: 1) a gain-and-loss calculation dominates the act of bribery, 2) bribery is for an immediate and specific purpose, and 3) there is no emotional content or affection involved in bribery. (Lovett et al. 1999) It should therefore be stressed that the maintenance and use of personal relations and, for example, gift-giving, is not necessarily the same as bribery and corruption, but may simply be symbols of friendship. In this study, we explicitly refrain from investigating corruption. Corruption is a complex phenomenon (e.g., Breit 2011), and to exclude corruption as a topic in this study may be considered a limitation.

External actors are integral parts of MNC business networks (e.g., Forsgren, Holm, & Johanson 2005) and earlier studies note the role of local contacts in the context of Russia (Kosonen, Kettunen, & Kotilainen 2008), and intermediaries in small firms’ interactions with political organisations (Bengtson, Pahlberg & Pourmand, 2009). Salmi (1995) developed the concept of a focal net in order to analyse any actor’s (focal organisation’s) perception of the business network. This is a “bridging concept between focusing totally on either the organisation or the environment” (Salmi 1995, 45). Anderson, Håkansson and Johanson (1994, 4), in turn, use the concepts of network horizon and network context to distinguish between “how extended the actor’s view of the network is” and what part of it the actor considers relevant.

To proceed further with the analysis of MNC-state relationships, we refer to the concept of matching (Ghauri & Holstius, 1996). Earlier studies note importance of micro-level matching in the establishment phase of market entry into Russia (Elg, Ghauri, & Tarnovskaya 2008). This has been elaborated further to the concept of ‘matching scheme’ (Heikkilä, 2011) in order to define the specific group of actors connected to MNC–state relationships, within and beyond its legal boundaries. Thus, a matching scheme is defined as “a group of internal and external actors connected to the MNC’s relationships with Russian public officials from the MNC perspective” (Heikkilä, 2011, p. 45). Our analysis (matching scheme) incorporates both internal and external actors that could potentially be connected to MNC relationships with public officials.

Membership of the matching scheme is in the present study based on the perceptions of individual actors within the MNC who are connected actors. This linkage may also take many

forms as, for example, personal contact or technical link. The study concentrates on one group of actors in the MNC net, namely those connected to Russian public officials. The MNC, as a firm, is the main focus of interest in the present study. External actors, however, are an integral part of network analysis, and the concept of the focal net allows such actors to be identified, in other words “to have a face”, in the analysis. Restricting the analysis to relationships with public officials would mean restricting this research to only part of the MNC’s focal net, hence the development of the new concept, the matching scheme. The matching scheme represents the management of a dyad (Ritter, Wilkinson, & Johnston 2004) comprising the MNC and public officials, but allows for the existence of intermediaries or other external parties as an integral part of it. It could also be pictured as a chain emanating from a specific public official (organisation), connected to the MNC directly or indirectly, and extending within and beyond it due to the connectedness of the relationships.

Our analysis incorporates multiple dimensions of MNC and MNC management. On the one hand we look at structural, relational and cognitive aspects of the matching scheme. On the other we investigate vertical, horizontal, and cross-relational dimensions of MNC management. The interest in state actors in the business network indicates the crucial nature of the latter dimensions of MNC management in particular. On the structural level, the local subsidiary could be described as an actor linking the MNC with state actors (Jansson, Saqib & Sharma 1995), although intermediaries (Hadjikhani and Thilenius 2005a) and other MNC external actors may also be involved in the matching scheme (Hadjikhani & Thilenius 2005b). The key role of the subsidiary and middle management (Jansson, Saqib, & Sharma 1995) features on the relational dimension of MNC management, on both the vertical and the horizontal levels. The multiple legitimacies of the actors feature on both of these relational dimensions as well (e.g., Hadjikhani, Lee, & Ghauri 2008). The critical role of key persons and the time-consuming nature of learning and competence building with regard to local procedures belong to the cognitive dimension (Jansson, Saqib & Sharma 1995). The secondary function of political relationships represents the cross-relational dimension of MNC (Hadjikhani & Thilenius 2009). Furthermore, political knowledge (Hadjikhani, Lee & Ghauri 2008) plays a role in all of the management dimensions.

METHODOLOGY

This paper reports analysis and results of an empirical explorative study carried out by Katja Heikkilä (2011). A case-study strategy was adopted, with semi-structured interviews as the primary data-collection method. Two MNCs (Alpha and Beta) were identified and they granted access to their Russian operations. Within the MNCs, multiple MNC subunits in different countries were directly or indirectly involved in related operations in Russia. Both of the MNCs had been present in Russia for several years and their operations were considered established. The interviews were conducted between May 2009 and June 2010. All in all, 26 employees were interviewed, and five of them were interviewed twice. E-mail exchange and short telephone conversations also took place with other interviewees after the interview in order to clarify the issues discussed. Given the focus of the study on the local-subsidiary level, it is worth noting that 16 of the 26 respondents were employees of the local subsidiary, and 10 were employees from other MNC units such as corporate and divisional HQ. Before engagement in the field, an a priori theoretical framework (Figure 1) was built in order to prevent data overflow and to improve the quality of the data. An iterative research design allowed new findings to emerge in the process (Dubois & Gadde, 2002). The iterative research process resulted in an empirically grounded framework of MNC relationship management with regard to state actors in Russia (Heikkilä, 2011). The study results are

based on a detailed analysis on the following activities: logistics, product-management/sales and finance activities. These description choices were guided by the empirical findings regarding the companies' operations in Russia. In the present paper we analyse the findings on a general level, rather than focus on any of these specific activities.

The topic under investigation could be considered sensitive, which led to certain limitations. This sensitivity refers to the eventuality of the topic getting mixed with corruption in Russian context. It was assumed that the companies would not be willing to openly articulate their connections with political decision makers. Thus, certain measures were taken during the course of the study to reduce the level of sensitivity. Political contacts were excluded, and the focus was switched to daily operative MNC issues. It was also stated to respondents in the interviews that the study was not about corruption or other illegal activities. It was considered important, however, that the participating companies and individuals were dealt as anonymous in the study. Given that the main focus of the research was on daily operational issues some one-off or non-regular processes were ignored.

CASE DESCRIPTIONS AND ANALYSIS

Both Alpha and Beta operate in business-to-business markets and in over 15 countries worldwide. Alpha has three and Beta has two business lines. Alpha's end customers are both public organisations and private companies. Household customers are mainly served through distributors. Beta's end customers are mainly private industrial companies in various industries. We present next the overall matching schemes with Russian officials of the two case companies. Figure 2 depicts Alpha's overall matching scheme. The Russian subsidiaries are focal corporate actors dealing with public officials in Russia, but Alpha Fin and Alpha's Estonian subsidiary (Sub 4), which regularly participate in Alpha's Russian market operations, are also indirectly connected with these officials, as well as is corporate HQ.

Alpha is connected to Russian customs officials through a customs broker, although there is also direct linkage. With regard to product certification, Alpha works in co-operation with several certification centres and agencies, as well as with test laboratories. These intermediaries link the company to certification officials and industrial-safety officials. There are also connections to industrial-safety officials through Alpha's customers. Both Russian subsidiaries are linked to tax officials, and to public officials in diverse social funds as well as state statistics offices. Service intermediaries are used, but there is also direct linkage to some of these public officials. Links with ecological fund and migration officials exist through service intermediaries.

Responsibility for relations with the various Russian public officials is shared among the departments at Alpha. Logistics and purchasing staff are mainly responsible for activities involving customs officials and product management, whereas the sales people are mainly responsible for activities related to product certification and industrial safety. Responsibility for product certification in business line 1 is assigned to product-management/sales people located mainly in Moscow, whereas overall responsibility for product certification in business line 2 is assigned to a sales manager located at Alpha Fin, who is supported by the staff of the Russian subsidiary. Finance and administration people are mainly responsible for activities related to diverse tax officials and social funds.

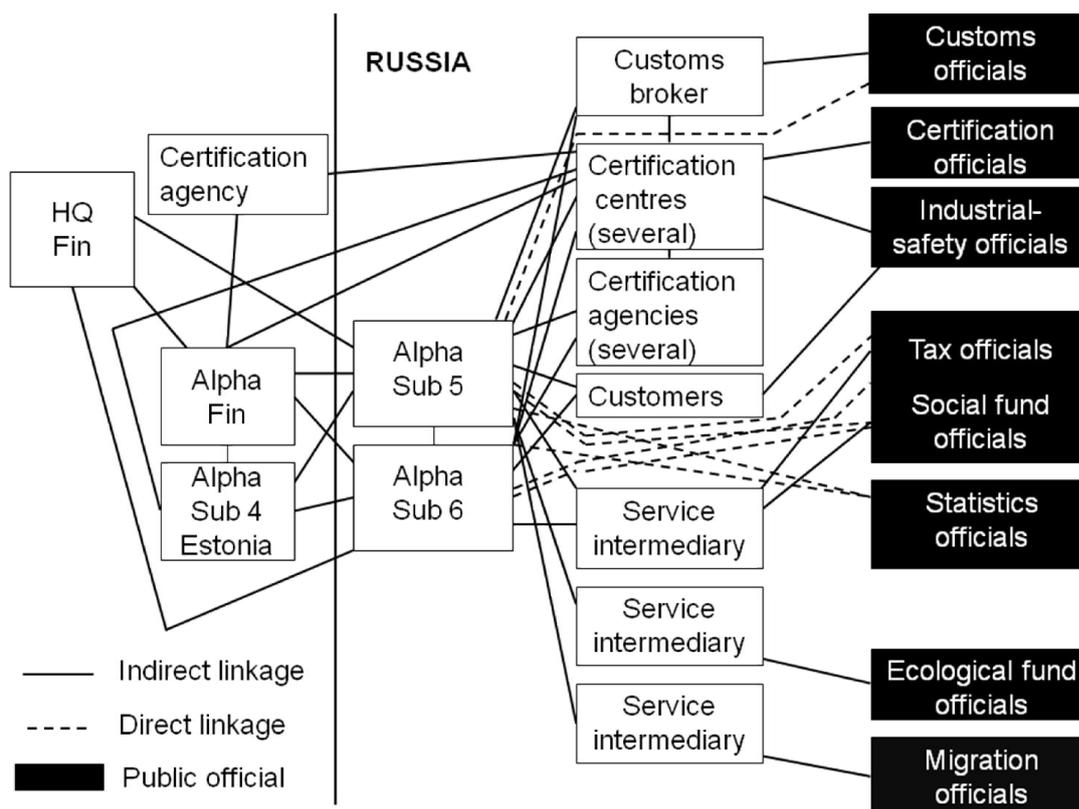


Figure 1 Alpha's matching scheme with Russian public officials. Source: Heikkilä, 2011, p. 101.

Beta's overall matching scheme with Russian public officials is illustrated in Figure 3. Beta Rus is a major corporate actor, although Beta Fin and Beta CIS also regularly take part in Beta's Russian operations and are thus, even though indirectly, involved in the matching scheme with Russian public officials. Corporate headquarters (HQ Fin) and Beta's other subsidiaries (Beta Oth), located in diverse countries, are more distant actors in the scheme, but they also have a role. Beta's external suppliers and customers, who have a part to play as well, are excluded from the figure.

Beta is linked to Russian customs officials through a customs broker, although there is direct linkage as well. It works in close co-operation with two certification centres in order to acquire the necessary product certificates, for example. The Russian subsidiary, as a Russian manufacturer, is subject to safety regulations monitored by industrial-safety officials. There are also links to these officials through customers who are exposed to Russian industrial-safety regulations. Beta interacts with industrial-safety officials through the certification centre, and also has direct links to some public officials in this same organisation. The finance and administration department files reports to the tax officials impersonally using software provided by an external service provider. There is also direct linkage in that some financial reports are delivered in person to tax officials and officials of the social-security fund, for example. Beta has a legal counsel at the St Petersburg subsidiary, which takes care of receivable collection that has recently resulted in court cases. Legal counsel also looks after the company's rights when various public officials approach Beta in the form of an inspection request, such as from the labour-inspection officials. Federal Security Service (FSB) officials have occasionally been in contact with Beta Rus. Beta's logistics director has also recently

been in contact with migration officials through a service intermediary in connection with applying for work permits for foreign citizens intending to work in Russia.

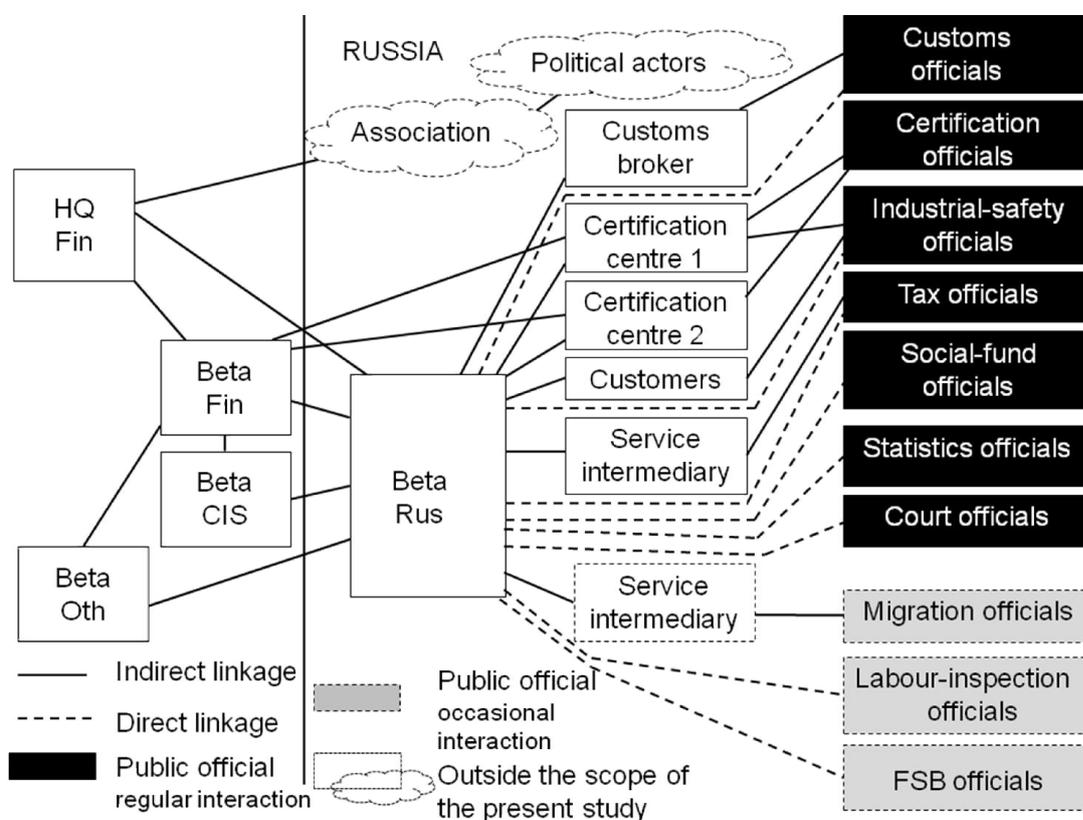


Figure 2 Beta's matching scheme with Russian public officials, Source: Heikkilä, 2011, p. 115.

In sum, Beta Rus has contacts with several different public officials in Russia through both indirect and direct links. Contact with customs, product-certification, industrial-safety, and tax officials takes place regularly and could be considered related to the daily activities of the subsidiary. Responsibility for relations with the different public officials is spread among various departments at Beta. Logistics people are mainly responsible for activities connected to customs matters, and product management and sales personnel for activities related to product certification and industrial safety. Finance covers matters related to diverse tax officials, including social funds and statistics, labour inspection and court issues.

DISCUSSION

Our discussion on the findings follows the logic of showing MNC complexity, and is thus divided into structural, relational and cognitive issues in MNC management. Furthermore, we investigate the vertical, horizontal, and cross-relational dimensions.

In many cases the local subsidiary as a MNC actor provided a link on the *structural-vertical* dimension between the Russian public officials and the MNC's business networks in both case companies. There was a link from divisional and corporate HQ to the matching schemes with Russian public officials. On the other hand, there was evidence of links between MNC

higher management and higher-level state actors, and between MNC middle management and Russian public officials. There was both separation and overlap in the HQ links to the matching schemes with Russian state actors. Both HQ and local-subsidary co-ordination were apparent in the matching schemes. The geographical expansion in Russia taking place in both MNCs added a further hierarchical layer incorporating Russian public officials. With regard to MNC-external actors, the link to local and corporate auditors, and the link between HQ and the large foreign MNC customer were considered relevant management issues on the structural–vertical dimension.

As comes to the *horizontal dimension*, we note that the local subsidiary, other corporate subunits and MNC-external actors were all connected to the case MNCs' matching schemes with Russian public officials. Several of the identified links related to data/information flows initiated at the request of the officials. Some of these requests were passed on to the MNCs indirectly through customers and intermediaries, and some directly by the public officials. Multiple intermediaries provided links between the public officials and the case MNCs' business networks. Direct linkages between the parties were related to official requests to provide additional information or to explain discrepancies in the data. The direct contact also involved the sharing of more general type of information about MNC operations.

The presence of multiple subunits as legal entities, several different operational modes, and various activities in the MNCs' Russian operations resulted in multiple matching schemes with Russian public officials. *Cross-relational links* between these parallel schemes were found, and relevant management issues were identified in this respect. Occasionally the same type of equipment was imported into Russia in different operational modes, which caused some management challenges in the matching scheme with customs officials, for example. Local subsidiaries acted as co-ordinators in these cases. Logistics and finance shared documentation to some extent, in other words the same documentation served both tax and customs officials. Logistics and product management shared documentation as well, thereby confirming the managerial relevance of cross-relational links between different or parallel matching schemes.

The local subsidiary, and more precisely its middle management and certain key individuals, were key and influential corporate actors in the *relational-vertical dimension* of the matching scheme. Even though higher management acknowledged the role of the local subsidiary as a centre of excellence in relation to market knowledge, there were also evident tensions between actors in corporate/divisional HQ and those in the local subsidiary. HQ and higher management distanced themselves from the Russian public officials. Examples of the exercising of HQ authority were also identified, and associated with tensions between HQ and the local subsidiary arising from problems in the matching scheme with the public officials. The evident sources of tension included the foreign MNC as a customer in Russia and IT-system configuration. The timing of corporate-level arrangements was reflected in the divisional/corporate HQ paid attention to these issues, and appeared to play a role in terms of its acceptability by public officials.

Whereas the respondents at the subsidiaries in most cases pointed to the focal role of the local subsidiary and its key individuals in relations with Russian public officials, respondents at the local subsidiary highlighted the role of intermediaries and also of suppliers. Higher-management distancing was reported on the vertical MNC dimension, but local-subsidary distancing was evident on the *horizontal dimension*. More than one of the subsidiary informants stated clearly that they preferred indirect contact with public officials through

intermediaries. Further on the horizontal dimension, business actors and public officials had different ways of doing things, and intermediaries were utilised in between. It appears from the findings of this study that the intermediaries facilitated action in the matching scheme. This has been reported earlier in the case of business and political actors (Ford 1980; Hadjikhani & Thilenius 2005a).

Both the local subsidiary and intermediaries were key actors in the MNC matching scheme with Russian public officials. Even though the MNCs were forced to work through intermediaries in some cases, intermediaries also helped in terms of distancing and synchronising. Suppliers and customers were also identified as integral actors in the matching scheme. The actors involved were differently embedded in terms of the corporate context and the local business context, meaning that there was also synchronisation among the connected actors beyond the local subsidiary–public official relationship.

The multiple operational modes and MNC activities *created multiple parallel matching schemes* with different and even the same public officials, which were evidently linked. These *cross-relational interconnections* (Ritter, Wilkinson, & Johnston 2004) resulted in alignment activities within the MNC. Data alignment was essential with regard to import prices for certain customs codes, for example. Given the complexity of the MNCs' Russian operations, the aligning of data seemed to demand extra effort on the part of the local subsidiary staff. Frequent and detailed inspections conducted on behalf of the customs and tax officials added to the problem. Detailed clarifications had to be prepared for the public officials during the inspections. At Beta, the tailored IT system had a key role in this process of collecting and aligning logistics and accounting data for the public officials.

In sum, on the cross-relational dimension the alignment of data between logistics and finance activities was challenging, and the challenges were attributable partly to operational complexity and partly to discrepancies in the data and legitimacy differences among the public officials. The primacy of customer and sales activities also caused occasional aligning and pacing problems.

Intermediaries as organisations played a key role in the matching schemes on the horizontal dimension, whereas on the vertical dimension the MNC subsidiary was an intermediary for more distant actors such as HQ. There was also evidence of *individuals acting as intermediaries* between more distant actors. Loveridge (2006) provides somewhat similar evidence of locals fulfilling an important translator role for MNC expatriates located outside developed economies. In the same vein, Hutchings and Michailova (2006) also suggest that departmental managers are instrumental in establishing connections in Russia. The individuals involved in the matching schemes were many and various, and outsiders to varying degrees with regard to other actors' operational realities. They differed in terms of the level of understanding of the connectedness of actors on the vertical, horizontal and cross-relational dimensions. Some individuals acted as intermediaries or consultants between more distant actors. Consequently, matching or synchronisation and pacing were found to take place on the level of individuals in the matching scheme. The prior experience of the actors involved often seemed to promote co-operation, but actor attitudes and learning were also found to play a role in this context.

In sum, multiple MNC internal and external actors on the vertical, horizontal and cross-relational dimensions were evidently linked to the MNC's matching scheme with Russian public officials. Intermediaries on the organisational and individual levels had an integral role

in the scheme in that the involved actors were differently embedded. The MNCs used both direct and indirect links in their relations with the officials. Parallel matching schemes and multiple legitimacies increased the links and interconnections to be considered. Data-provision activities were extensive, and the knowledge-ability of the individuals involved was challenged by multi-dimensional connectedness and interconnections. Prior experience and the consequent knowledge base promoted co-operation, but individual learning abilities and attitude compensated for the lack of knowledge.

CONCLUSIONS

While there is increasing interest in socio-political actors in business networks in general, and in the emerging contexts in particular (Hadjikhani, Elg & Ghauri, 2012), there are only few empirical studies available looking at the business–state context. The present study enhances understanding of the extensive information and knowledge-provision activities related to Russian public officials and the implications for MNC management. The findings also highlight the effect of combining different types of knowledge among multiple actors. Furthermore, the study sheds light on the role of direct and indirect contacts in MNC relations with Russian public officials.

This study enhances understanding of the role of MNC complexity in a business–state context. The role of divisional and corporate HQ is added to the picture, together with the role of the HQ-customer link, consequently complementing the received theory in terms of the connectedness of actors on the vertical dimension. Auditors, both corporate and local, were also identified as having a role on the vertical dimension. Problems with HQ authority were evident, and were related to a lack of market knowledge at HQ. Actor turbulence on the individual level within and outside the MNC was also found to play a role. In addition to corroborating earlier findings on the intermediary role in business–state relations (Hadjikhani & Thilenius 2005a; Bengtson, Pahlberg & Pourmand 2009), this study provides evidence of direct and indirect links through intermediaries with a somewhat different function. Direct links were related to the enhancement of corporate knowledge among public officials. Indeed, the corporate knowledge possessed by intermediaries and by public officials was found to have a role to play in the matching scheme.

The multi-dimensional complexity inherent in MNC–state relations was evident, the identification of a cross-relational dimension adding to the existing literature. Given, for example, the theorising of Hadjikhani, Lee, and Ghauri (2008) that MNCs build trust, commitment and legitimacy with business and socio-political actors, the evidence of multiple parallel matching schemes reported here enhances understanding of the challenging nature of these processes. This study contributes to the literature by the increased understanding of the role of knowledge in MNC relations with state actors. First, it shows the extensive nature of data-provision activities aimed at Russian public officials and encompassing multiple actors in the matching scheme. Second, and complementing earlier findings on the role of political knowledge (Hadjikhani & Ghauri 2001), market, corporate and internationalisation knowledge were found to play a part (Jonsson 2007) and to be influential in MNC relations with Russian public officials. The results also shed light on the possibly diluted or mixed nature of market knowledge given that requests from public officials are received partly indirectly through customers, and the wishes of customers and of public officials may differ somewhat. Third, the role of individual knowledge-ability was highlighted due to the multidimensional connectedness and heterogeneity of the connected actors. Key individuals

were identified as intermediaries within the MNC in this respect. Individual and organisational experience played a role in this, but individual attitude was an attribute that enhanced co-operation among the actors involved as well. Employee motivation or attitude has been discussed earlier in connection with employee ability (e.g., Minbaeva et al. 2003; Minbaeva – Michailova 2004).

The findings of the present study contribute to the literature on managing the embedded MNC. The matching scheme conceptualised in the study extended the research beyond the legal borders of the MNC. With regard to matching-based studies on the process of market entry (Ghauri & Holstius 1996; Elg, Ghauri & Tarnovskaya 2008), the present study focuses on micro-level matching during the establishment phase, while showing the multidimensionality of the process. Micro-level matching is considered challenging for foreign firms, to the extent of causing over-optimistic expectations of future operations in the countries concerned.

This study provides some managerial implications too. One of the main findings of the study is that even though the local subsidiary is a key actor within the MNC in its relations with public officials in Russia there are other integral actors in the matching scheme. However, as there were few key individuals in the MNCs' matching schemes with public officials, it is worth noting that these individuals may be under heavy pressure to resolve complicated issues. The managerial issues on the structural dimension are related to linking actors on the hierarchical, horizontal and cross-relational dimensions. On the relational dimension the management is more about supporting, synchronising and coping with tensions, as well as aligning and pacing, whereas on the cognitive dimension it is about the individual's ability and motivation to act, and about individuals acting as intermediaries between more distant actors. Co-operation is necessary in order to collect the necessary data as well as to combine and even to create relevant knowledge. On all of these dimensions managerial thinking should not be restricted to actors within the MNC border, but should extend somewhat beyond it.

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