EN310E 003

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LIVING NEXT DOOR TO GAZPROM

"How a Norwegian company found itself in Murmansk, employing 80 engineers and welders – and a guy from Verdal."

Preface

This conclusive thesis forms part of the course MSc Energy Management at Bodø Graduate School of Business and MGIMO University in Moscow.

Reinertsen AS is so far the only Norwegian energy sector supplier that has made a serious effort to enter the Russian market. The aim of the thesis is to identify which factors played part in making Reinertsen NWR's establishment in Murmansk an unprecedented success.

Acknowledgements

Throughout our work we have been met with goodwill. We are grateful to all those who have shared their time with us. Our appreciation goes to Torkild Reinertsen, President and Geir Suul, Director of Business Development at Reinertsen AS for valuable insight into the strategic perspectives of Reinertsen's internationalization process. We would also like to extend a special thanks to Manager Svein Grande for welcoming us at Reinertsen NWR's facilities.

Thanks also go to all those who have helped us paint the background picture: Thor Christian Andvik from Statoil, Alexey Fadeev at Murmanshelf, Kåre Storvik from Storvik & Co, Geir Reiersen from Siva, Jan Egil Sørensen and Knut Henningsen from PetroArctic, Håkon Skretting from Intsok, Dmitri Teryakhin and Marat Bagautdinov.

Lastly we would like to thank Bodø Graduate School of Business and Bodø University College. The amount of resources and time, at all levels, put into making this program fly has made it an inspiration and a pleasure to be pioneering students of MSc Energy Management.

Bodø, May 23, 2007.

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Abstract

Russian-Norwegian cooperation and the term "The High North" have been subject to increased attention, especially from an energy perspective. The impression that North West Russia holds a great promise for Norwegian companies has been widely projected by media and politicians. The lack of energy business initiative in North-West Russia is however curiously absent, save for one company, the case of this study, who has achieved success in short time.

This thesis utilizes internationalization theory to analyze why Reinertsen NWR's establishment in Murmansk was successful. The findings suggest that managerial commitment, a broad resource base and re-export have played important roles for a successful start-up.

РЕЗЮМЕ

Сотрудничество между Россией и Норвегией в регионе Крайнего Севера, в особенности в связи с развитием топливно-энергетических проектов привлекает к себе все больше внимания. Как в прессе, так и на политическом уровне выражается крайняя перспективность данного сотрудничества для норвежских компаний. Весьма любопытным в этой связи является рассмотрение деятельности одной из компаний, добившейся значительных результатов за достаточно короткий промежуток времени.

В рамках данного исследования проводится анализ деятельности компании Reinertsen NWR с позиций теории интернационализации. Изучаемая компания разместила свое представительство в г. Мурманск, что оказалось весьма удачным решением. В исследовании рассматриваются факторы, обеспечившие успех, которого компания достигла за весьма короткое время. Предположительно, значительную роль сыграли следующие обстоятельства: особый подход к менеджменту, богатые природные ресурсы и осуществление операций реэкспорта.

Sammendrag

Norsk-russisk samarbeid og begrepet ”Nordområdene” har de siste to årene vært gjenstand for økt norsk og internasjonal oppmerksomhet. Mulighetene innen petroleumsutvinning har vært spesielt i søkelyset. Inntrykket av de lovende mulighetene for norske selskaper i Nordvest-Russland har blitt fremmet av media, politikere og forskjellige forskningsinstitusjoner.

På bakgrunn av denne bonansaen ønsket forfatterne å foreta et komparativt casestudium for å se på hvilke faktorer som fører til suksess i energibransjen i Nordvest-Russland. Mangelen på initiativ fra norsk næringsliv ble tidlig åpenbar, og studiet ble endret til en grundig analyse av den eneste aktøren i energibransjen som har lykkes i Nordvest-Russland, Reinertsen NWR.

Studiet tar i bruk internasjonaliseringsteori for å analysere hvorfor etableringen av produksjonsbedriften Reinertsen NWR har vært en enestående suksess. Funnene indikerer blant annet at en engasjert toppledelse, en bred ressursbase, uavhengighet fra markedsforhold samt å unngå partnerskap med en russisk enhet har spilt avgjørende roller for suksess i oppstartsfasen.

Survey of tables

Survey of figures

Survey of appendixes

Abbreviations

BCF	Billion Cubic Feet
EIA	The Energy Information Administration (USA)
EPCI	Engineering, Procurement, Construction, Installation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HSE	Health, Safety and Environment
IEA	The International Energy Agency (International)
IMF	The International Monetary Fund (International)
MB	Million Barrels
MNC	Multinational Company
NCS	Norwegian Continental Shelf
NGO	Non-Governmental Organization
NOK	Norwegian Kroner
NPD	The Norwegian Petroleum Directorate
NTVA	Norwegian Academy of Technology Service
NWR	North-West Russia
OED	Oil and Energy Department (of Norway)
PSA	Production Sharing Agreement
RUR	Russian Rubles
SEZ	Special Economic Zone
USD	US Dollars
WOS	Wholly Owned Subsidiary

Glossary

Autonomous Okrug: Russian Autonomous district: More autonomous than oblasts but less than republics; usually with substantial or predominant ethnic minority. Russia has 7 autonomous Okrugs (Wikipedia, 2007).

Babushka: Russian for old woman or grandmother (Gosiva, 2007).

Barents 2020: A Norwegian initiative to contribute to stronger focus on the High North with emphasis on research and cooperation projects with Russia (Norwegian Government, 2006).

Barents Sea: Outlying portion of the Arctic Ocean. Bounded by the Norwegian and northwestern Russian mainland (south), the Norwegian Sea and Svalbard (west), Franz Josef Land (north), and the Kara Sea and Novaya Zemlya (east) (Britannica Concise Encyclopedia, 2007).

Continental Shelf: The sea bed and the soil beneath it that is adjacent to the coast of a maritime state and outside the limits of the state's territorial waters (Barber, 2004).

Foreign Direct Investment: The acquisition by residents of a country of real assets abroad. This may be done by remitting money abroad to be spent on acquiring land, constructing buildings, mines, or machinery, or buying existing foreign businesses (Black, 2007).

Gazflot: Gazprom wholly owned subsidiary. Besides ship-owning and freight operations it conducts exploration, drilling operations, production and transport of oil and gas (Gazflot, 2007).

Gazprom: The largest Russian company and the biggest extractor of natural gas in the world. It is owned by the Russian state.

Glasnost: The policy or practice of more open government and wider dissemination of information in the former Soviet Union (Barber, 2004).

Governor: The uppermost elected representative of an administrative subject (except for Republics) in Russia.

GULAG: The system of forced-labor camps in the Soviet Union in which millions died. Besides ordinary criminals, inmates included dissident intellectuals, members of ethnic groups suspected of disloyalty, and members of political factions who had lost power. Although the Gulag was officially disbanded in 1955, a system of labor colonies remained (Barber, 2004).

Innovation Norway: Innovation Norway offers products and services intended to help boost innovation in business and industry nationwide, foster regional development and promote Norwegian industry and Norway as a tourist destination.

INTSOK: Norwegian oil and gas partner organization. Established in 1997 by the Norwegian oil and gas industry and the Norwegian Government (Intsok, 2007).

Krai: Russian Territory: Essentially the same as oblasts. The title "territory" is historic, originally given because they were once considered frontier regions. Russia has 7 Krais. (Wikipedia, 2007)

Low-cost country: A country with low labour and production costs (Black, 2007)

LukOil: Russia's second largest oil company. Privately owned.

Monchebank: DNB-Nor's Russian bank.

Multinational company: A firm conducting business in more than one country, through branches or subsidiary companies.

Murmansk: a port in NW Russia, on the northern coast of the Kola Peninsula, in the Barents Sea. It is the largest city north of the Arctic Circle and its port is ice-free throughout the year (Barber, 2004).

NGO: The term pressure group has increasingly been displaced by non-governmental organization (NGO). The term originated with the United Nations, which made provision in its charter to give such organizations consultative status (Grant, 2003).

Oblast: Russian Province: Regular administrative units with federally appointed governor and locally elected legislature. Commonly named after the oblast center — the largest city in the oblast, its administrative center. Russia has 48 oblasts. (Wikipedia, 2007)

Offshore Zone: A national territory with special rights in economy and business, exclusive management and attractive conditions for both national and international investors (Matusevich, 2006).

Oligarch: The term came into wide circulation after the collapse of the Soviet Union in application to the people that became extremely wealthy in some post-Soviet republics (Hoffman, 2004).

Perestroika: The policy or practice of reforming the economic and political system, practiced in the 1980s in the former Soviet Union.

Prirazlomnoye: Oil field located south-east in the Barents Sea. Owned by Owned by Rosneft daughter Yuganskneftegaz (Rosneft, 2007).

Production Sharing Agreement: Are used primarily to determine the share a private company will receive of the natural resources (usually oil) extracted from a particular country (Wikipedia, 2007.

Reinertsen AS: A Trondheim based engineering and construction company.

Reinertsen NWR: "Short for Reinertsen North-West Russia", Reinertsen AS' wholly owned Murmansk subsidiary.

Republic: Russian Republic: Nominally autonomous, each has its own constitution, president and parliament; is represented by the federal government in international affairs; and is meant to be home to a specific ethnic minority. Russia has 21 republics. (Wikipedia, 2007)

Rosneft: Russia's largest oil company (May, 2007), it has grown rapidly over the last years seizing former Yukon assets in rigged auctions. State owned.

Shtokman: A giant gas field outside North-West Russia.

Special Economic Zone: A geographical region that has economic laws that are more liberal than a country's typical economic laws. Usually the goal is to increase Foreign Direct Investment.

Success factors: The strength and weaknesses that affect an organization's success (Law, 2006).

The High North: The circumpolar area around the North Pole, as well as parts of northern Russia, Canada, USA and Scandinavia.

The Russian Federation: The official name for Russia.

Value chain: The chain of activities by which a good or service is produced, distributed, and marketed (Black, 2007).

Wholly owned subsidiary: A subsidiary undertaking that is owned 100% by a holding company (i.e. there is no minority interest) (Black, 2007).

Introduction

As pioneer students of MSc Energy Management, a unique MSc program of its kind, the authors have had the opportunity to participate in a joint Russian / Norwegian group tutored in Moscow and Bodø. As a result of this it was natural to write a thesis on Russian / Norwegian cooperation.

Russian-Norwegian cooperation and the term "The High North" have been subject to increased Norwegian and global attention, especially from an energy perspective. The impression that North-West Russia holds a great promise for Norwegian companies has been widely projected by the media, various institutions and politicians. We initially set out to do a more comprehensive study with several cases from Norwegian establishments into North-West Russia. However the lack of energy business initiative in North-West Russia soon became apparent, save for one company, the case of this study, who has achieved success in short time.

No matter which consultant we talked to concerning petroleum business in North West Russia, one company was mentioned over and over: Reinertsen NWR. Kåre Storvik and Geir Reiersen, two leading Norwegian experts on North West Russia, emphasized that this company was the only Norwegian company successfully doing business in the petroleum market in North West Russia. Håkon Skretting, Intsok's Regional Director for the Russian market points out that Reinertsen NWR is the leading Norwegian petroleum supply company established in Russia, and it is growing steadily (Skretting, 2007).

Thus we decided to design a narrower and deeper study, focusing on that single company that has not only talked the talk, but also walked the walk, a walk that has been fast and successful. Three months after Reinertsen AS decided to establish a subsidiary in Murmansk, Reinertsen NWR produced their first unit (Arena, 2006). Reinertsen NWR has received praise from both Statoil and Hydro for their production conditions in Murmansk (Thirud, 2006). They have obtained lower production costs and a competitive advantage in their home market without compromising on quality

and ability to deliver on time. Two years after the establishment they gained a profit, 3 years ahead of schedule (DN, 2007). At the time they are building a production facility neighboring the Gazprom subsidiary Gazflot and even Russian oil business people are praising the Norwegian company's progress (DN, 2007; NRK, 2007b).

The thesis utilizes internationalization theory to analyze why Reinertsen NWR's establishment in Murmansk was successful. The scientific contribution of the work is within internationalization theory, shedding light on which factors were in practice crucial to success and which were less important in this specific case. The theory on internationalization is extensive and is under continuous revision. Our findings will contribute to this work.

The practical contribution will be to companies that are looking eastwards. They will undoubtedly be able to extract elements from the work, adding valuable insight to their own prospective internationalization processes. The analysis shows that some success factors were more or less as expected, for example the importance of language qualifications while others were not evident from the beginning, like the importance of avoiding a Russian partner.

The aim of the research

The energy resources of North-West Russia and their crown example as such, the giant gas field Shtokman; have raised interest in the area to almost cold war levels. Western oil companies and subcontractors are consequently interested in participating in the anticipated developments. Norwegian companies, with much experience from off-shore developments are naturally well-positioned as much of North-West Russia's developments will be off-shore.

Adding to this that Russia is a low-cost country with high and steady economic growth and a petroleum sector that will need investments of hundreds of billions of dollars over the next decades, the country has become a highly interesting internationalization target for the petroleum industry. The interest lies mainly in gaining a share of the Russian market, but also in the advantage of having a highly educated and relatively cheap work force that makes production establishments attractive.

The aim of the research is to shed light on which factors were important or even crucial for Reinertsen AS' establishment of petroleum sub-supplier Reinertsen NWR in Murmansk. Our problem statement is:

"What were the success factors for Reinertsen AS' Foreign Direct Investment into the Russian petroleum sub-supplier market?"

To answer this question we have collected data on Russia in historical, economic and cultural terms as well as data on the Norwegian petroleum sector, Reinertsen AS and subsidiary Reinertsen NWR.

The theory on internationalization is wide and to a large degree varied. In order to provide a sufficient backbone for our analysis we will lead the reader through the most important contributions to this area of research. Since the data amount is large, a structure is needed for analytical purposes. We have developed a research model using Dunning's (1973) eclectic internationalization theory as a centerpiece to scrutinize the different factors that together comprised the establishment of Reinertsen NWR.

Dunning's theory has been widely used as a tool to analyze Foreign Direct Investment. It focuses on Internal and External factors to explain what conditions have to be present in order to successfully undertake FDI. Furthermore, the advantage of maintaining control through internalizing business instead of using arms-length agreements stands central.

Our research model consequently looks like this:

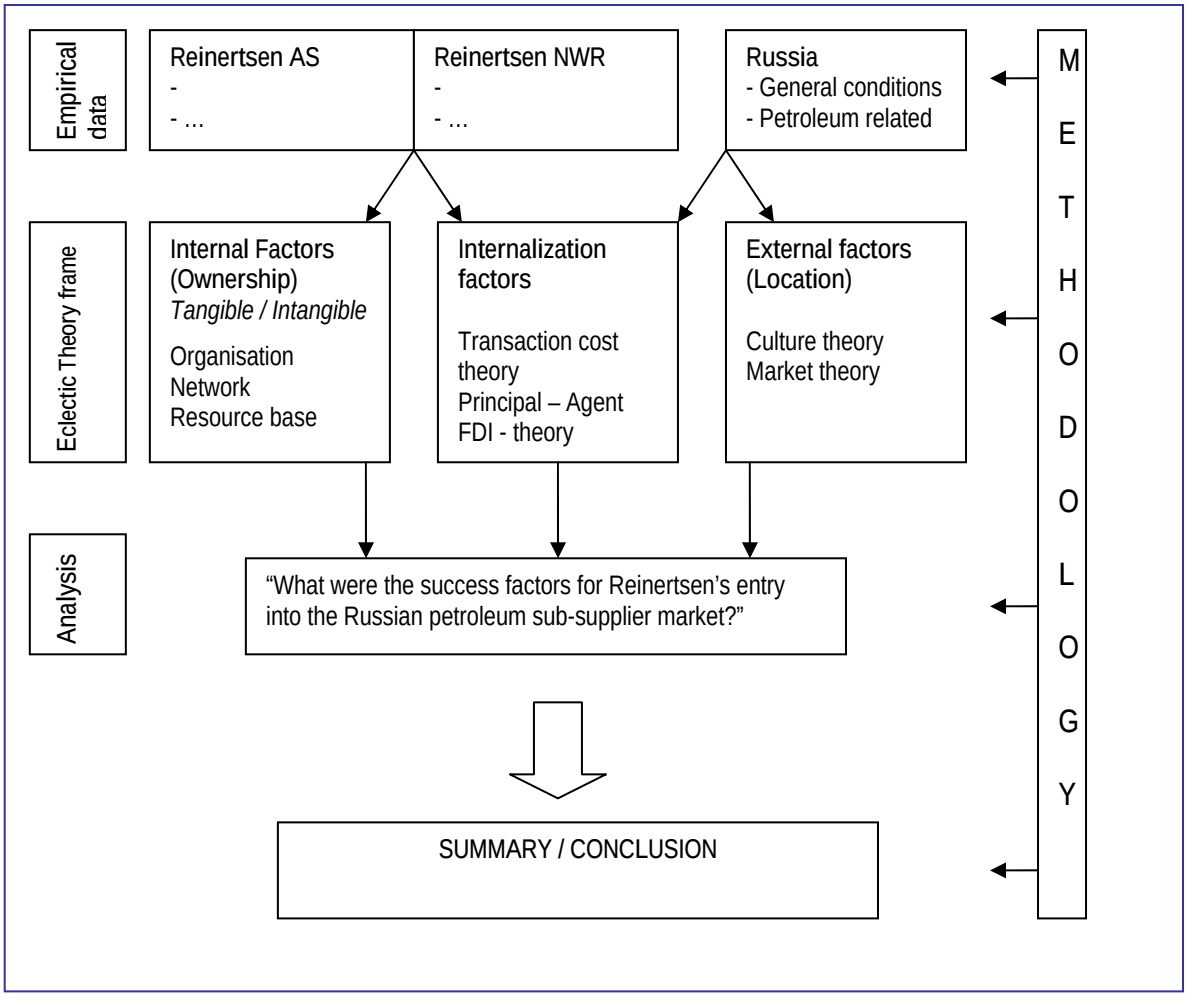


Figure 1: Our research model based on Dunning's eclectic theory

Outline of the thesis

1. Methodology: The methodological concerns have covered the entire research process and it is natural to communicate them at the beginning of the thesis. In this way we present to the reader the fundamental ideas which have embraced our work.

Frame of reference

2. Cultural differences: The cultural chapter deals with cultural aspects in general before presenting specific Russian and Norwegian traits and business culture. The purpose to the chapter is to prepare the reader's mind to the fact that an internationalization process involves venturing into psychologically unknown territory.

3. Internationalization literature: The internationalization literature review leads the reader through the most common internationalization theories and approaches. We elaborate on our main choice of theory; Dunning's Eclectic Paradigm before knitting up the chapter by including different theoretical approaches in a coherent manner to form an eclectic research model.

Background

4. Russia: In order for the reader to understand the context in which Reinertsen NWR operates we present a brief history of Russia up until today including the post-soviet economic development. The historical background is also relevant in the sense that it provides the reader with a reference for the cultural aspects discussed: Many cultural traits have their background from Communism and earlier and might be hard to fathom without knowledge of their background.

5. The Petroleum Industry: After a brief global overview, this chapter introduces the reader to the Norwegian petroleum industry from which Reinertsen AS gained its broad petroleum sector experience. Further we elaborate on the Russian petroleum industry, discussing the Shtokman hype and showing that Russia and North-West Russia present numerous opportunities besides Shtokman for Norwegian companies.

6. Reinertsen AS and Reinertsen NWR: This is the data gathered from interviews with the managers of the respective companies, presented as a coherent story to make it interesting reading.

7. Analysis: This chapter ties together the frame of reference, the background and the data gathered in the case study within the frame of our research model. Utilizing theory and previous research on culture and internationalization to structure and shed lights on bits and pieces of data, we manage to draw at least some conclusions that challenge common opinions on success factors of business internationalization and how to establish oneself in Russia.

Further Research Issues: Here we give a brief suggestion of fields of study where further research is needed.

1. METHODOLOGY: Scientific Method

In this chapter we will introduce some definitions of the term method and explain how we understand the concept. Further we will discuss our science philosophical perspective which is within the tradition of social constructivism. We will present to the reader different methodological questions and defend the choices we have made in our work.

1.1. What is methodology?

Method derives from the Greek word *methodos* which means to *hodos.* In plain English: The road to a goal. Methodology is the way method is used, a description of the technique that is used in a given science. Easterby-Smith et al. (2002; 31) gives a more practical definition: "Methodology: Combination of techniques used to enquire into a specific situation". To put it even more practically, methodology is about gathering, systemizing, analyzing and interpreting data.

1.2. Methodological anchoring

Methodological anchoring concerns itself with the way the researcher views the world. This might sound a bit vague. To put it simple no one has a monopoly on the truth. Easterby-Smith et al. (2002) say that since the researcher in many cases may influence the object of research, interference is an important issue. The way the researcher views the world will inevitably affect the research. Therefore it will be valuable for the reader to know the science philosophical standing of the researcher. Our standing is within the social constructivist tradition. Meaning is constructed through social interaction. That means that we see social and economical phenomenon, not as objective realities separated from the consciousness of people, but as meaningful phenomenon that changes character, that become something different if we change the way we look upon them (Nyeng, 2004:137). [1]

[1] Take for instance the delicious food Monkfish. Up until the 1990's the catch was seen as waste. All fishermen knew that the ugly looking fish was nothing to keep, and threw it over board. Today, on the

1.2.1. Ontology / Epistemology

Easterby-Smith et al. (2002) say that ontology is the way we view the world, the perception of reality. Philosophers have discussed this for centuries. What is reality?

Epistemology is the way we communicate information and findings. What can we know? What is true? How true can we claim the findings in our thesis to be? The known German writer Thomas Mann once said: "A great truth is a truth whose opposite is also a truth". Mann's statement may serve as an entry to the social constructivist world view. There is no universal truth. Economics and business have a fairly short history compared to traditional sciences such as physics and chemistry. But even in the natural sciences, where concrete objects are investigated, we have seen the splitting of what was unsplitable, the atom. New discoveries constantly change our world view. Speaking of science, it might be a digression to address faith, but the mere fact that thousands of religions exist is a token that truth varies, from person to person, from time to time and from place to place.

May (1994; 11) paraphrases Schults and Meleis (1988) in her article on abstract knowledge. "If we agree that there are different ways of knowing, different unknowns to be known, different propensities of knowers for knowing and different aspects to be known about the same phenomenon, then perhaps we can develop appropriate criteria for knowing from what we do know, and then, for knowing what we want to know."

This somewhat peculiar quote shows that it is simply impossible to unveil cause and effect behind everything. The social constructions are simply too complex. But it is certainly allowed to try!

1.2.2. The authors' background & methodological anchoring

During our studies in Energy Management we have had traditional courses within economics, business and administration, but also courses oriented more towards social science. The course in methodology also gave interesting glimpses of theory, such as complexity theory. Furthermore the authors have lived and studied in Russia's two

contrary, Monkfish is a delicacy and consequently very valuable catch. Still, many older people refuse to eat it. Reality changes according to the eyes of the beholder.

largest cities and gained first hand knowledge to Russian society and business world. We feel that our background is suitable to illuminate our problem complex in a good way.

Still, we realize that it will not be easy, and we will not be able to reach an objective truth, neither concerning Russia nor Reinertsen NWR. The complexity surrounding establishing businesses makes it hard to break down processes and individual occurrences to simple concepts. It is hard to unveil the course of even simple occurrences, as cultural differences, hidden agendas, announced agendas, power games and conflicts of interest interact to create a measurable result (Easterby-Smith et al., 2002). What we will do is provide the reader with an overall understanding of Reinertsen NWR's establishing in Murmansk. We will do this by shedding light on and scrutinize factors that have played or may have played a role in the process.

The role of being a researcher is new to us both. We have written many assignments and papers previously, and have had several courses in methodology. In former assignments scientific philosophical issues have been left little concern. Now, embarking on the largest research project we have ever done, a master thesis, we realize that consciousness regarding our philosophical standing will have a positive impact on the result of our research. Throughout the process we have discussed how society and intra-social communication vary between Norway and Russia. We have been aware of what Nyeng (2004) says, that the reality is a social construction and the human is a bearer of its meaning.

1.3. Scientific Approach – Methods

Kotler (2000) claims there are 5 important stages that a research project must go through in order to yield the best possible result. We will discuss these stages closer in this chapter.

1. **Formulating research questions**
2. **Choosing a research design**
3. **Collecting data**
4. **Analyzing data**
5. **Reporting**

1.3.1. Stage 1 - Formulating research questions

In the beginning, we set out to do a comparative case study of Norwegian petroleum business establishments into North-West Russia. It soon became apparent that despite huge political and academic interest in the area, not many companies have chosen to establish themselves in the area. After a few conversations with people who knew the area well, we found that there was a lack of serious and resourceful actors entering the market. A recurring name in these conversations was Reinertsen NWR, which had not only established itself in the area, but was in a short time making a profit. Why were they successful, we wondered? After a few more discussions among the authors and with other counselors we basically had two options: 1. Look into why so many business initiatives in Russia failed, or 2. Find out what had made Reinertsen NWR a success. With a desire to highlight possibilities instead of obstacles, we ended up choosing the latter as a question for our research.

Thus we have chosen to focus on a single case, Reinertsen NWR. We want to look into the company to see which factors have contributed to their unprecedented success in North-West Russia. But a business establishment is not only affected by the internal factors. The external factors will to a great degree affect the process, and in an unknown environment the knowledge of and degree of control over these factors may be crucial. To broaden the picture and paint a background for our case we have delved into Russia, painting a background picture of an environment that is sometimes very different from Norway. In order to do this properly we have leaned on our own knowledge from living in and studying Russia, we have talked to Russian and Norwegian experts on North-West Russia and studied the media and previous research.

1.3.2. Stage 2 - Forming a research design

Easterby-Smith et al. (2002) say that a research design is organizing the research activity, including data gathering in a way that most likely to achieve the aim of the researcher. Developing a good design that is suitable for a given research problem requires taking a stand on several issues such as scientific approach, sampling, which theory to use and presentation.

Our research design will be descriptive. In the early phase we will do extensive literature searches within existing research on doing business in Northwest Russia.

This being a qualitative thesis, generalizability tends to be sacrificed for detail. Nevertheless we will allow room for basic quantitative data on Norwegian businesses establishing themselves in Russia and on the development of the Russian economical sector.

Quantitative or qualitative method?

Method means to proceed according to plan. But there is not a single method that is appropriate for all research questions. The method must be adapted to the tasks to be carried out and the research question (Nyeng, 2004).

There are two main types of research. In quantitative methods statistical aides are used to analyze gathered data in the form of numbers (Nyeng, 2004). Qualitative method is based on data that can not be statistically treated, but must be verbally interpreted.

Nyeng (2004; 195) presents some important issues when choosing a method:

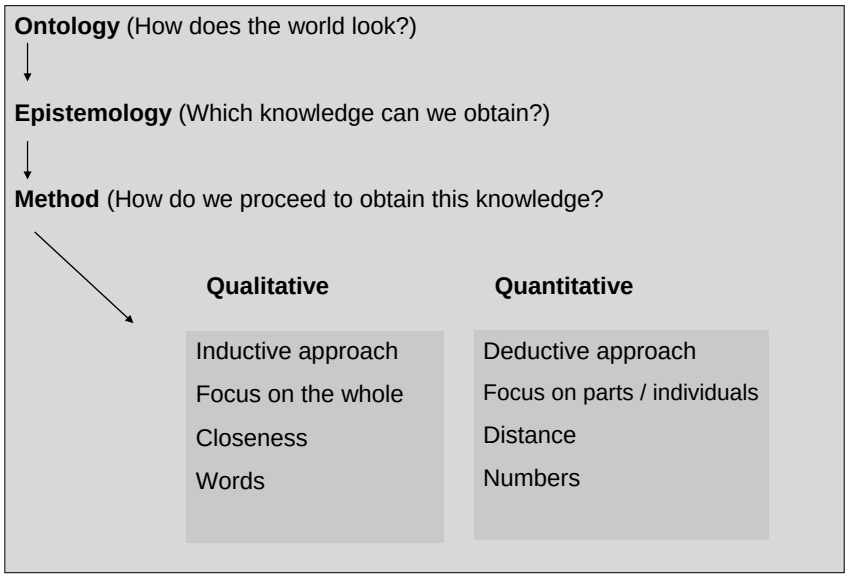


Figure 2: Quantitative and qualitative methods (Nyeng, 2004)

The qualitative method is well suited for social constructionist research since it sees these phenomena as results / constructions of social interaction (Easterby-Smith et al. 2002).

This method is clearly favorable to our research question where we seek to understand a single case in a complex and sometimes unknown environment.

Qualitative methods

A definition of qualitative methods is ”a selection of explaining techniques seeking to decode, translate and otherwise understand the meaning, not the frequency of more or less naturally present phenomena in the social world” (Van Maanen, 1983;9). One is in other words concerned with explaining and interpreting phenomena and gives an account of these interpretations as organized text (Nyeng, 2004).

This makes it more dangerous to generalize findings. Instead phenomena are studied in-depth. Qualitative research is in other words highly context dependent. Techniques associated with qualitative methods are:

- Interviews
- Observation
- Diary

It is difficult to pre-test qualitative methods. That makes it especially important to have a well considered research design already from the start. Easterby-Smith et al. (2002) say that in order to create a good research design one must be in the clear concerning the overall aims of the research. Our research seeks to uncover which experiences the Norwegian company Reinertsen AS gained when establishing themselves in Russia. We want to unveil their motivation for doing what they did, their future plans and strategies. For instance a questionnaire would be poorly suited for this undertaking. We must uncover which thoughts and reflections the management of Reinertsen have made them selves during this process. In order to do this, we traveled to Murmansk and interviewed the management there. We also interviewed central managers at Reinertsen’s main office in Trondheim. In addition to that, to better our understanding of the surroundings Reinertsen NWR operates in we have interviewed and sought advice from several experts, Russian and Norwegian ones, on entrepreneurship and the oil and gas sector in Russia.

Types of data

One distinguishes between two main types of data: Secondary and primary.

- Secondary data is gathered by someone other than the researcher and is usually gathered for another purpose (Jacobsen, 2002). Our secondary data

typically were annual reports, Norwegian, Russian and international media, publications from public and private organizations and other research. It is especially important to ensure the quality and reliability of secondary data. For example, relying on random internet sources may seriously weaken reliability. To strengthen reliability we relied on quality controlled databases, publications from respected organizations and authors and inevitably the media. Data from media sources are generally newer than other secondary data, which is advantageous.

- Primary data is gathered by the researcher. It is always connected to the actual project. As mentioned above, we collected our primary data through interviews and conversations with Russian and Norwegian experts and representatives from Reinertsen. The advantage of primary data is that they're tailored to the research question and that the researcher has much greater control over validity and reliability than with secondary data (Jacobsen, 2000). The backside of using primary data is that it may be difficult to access relevant sources, and that their collection is much more resource demanding in terms of money as well as time. The main bulk of our data gathering work were consequently associated with primary data conducting interviews and conversations.

Sampling – units of analysis

Our unit of analysis, or case, is Reinertsen NWR. We looked at the process of establishing the company in relatively unknown surroundings in Murmansk. To do this, we mapped the specific actions taken and talked to managers in order to reveal the thoughts and intentions behind these actions. Reinertsen NWR's establishment is not far away in time, and all outcomes of the internationalization process are not yet certain, like attracting more Russian customers. March et al. (1991) write about learning from samples of one or fewer, which is what many organizations are forced to do, for instance an airline learning to prevent airplane crashes without actually experiencing them. They claim that meager experience can be converted into interpretations of history by experiencing events richly. They claim that as organizations are undergoing processes, the management gains experience and learn from them before the outcome of the processes becomes apparent. In the case

Reinertsen NWR some outcomes are apparent, while others are not. Nevertheless it is valuable to find what the management has learnt in the course of the internationalization process, what their experiences have been and how their decisions have been affected.

We have also seen those actions and decisions against their context, such as rules and regulations, cultural codes and commercial considerations. In order to do this we gathered data from experts that have excellent knowledge on the business climate and energy sector in Russia.

Experts – creating a backdrop

The Norwegian experts come from organizations and companies within consulting and industry development and the petroleum sector. Talking to one expert, we have been led to others and the selection of experts has grown in the process. This random method of choosing a sample that Easterby-Smith et al. (2002) calls "snowball sampling" has the advantage that we throughout the process have remained open to contributions from new sources. The disadvantage of the selection method is that the sample might be biased, that the respondents are not representative for the population. From the Russian side we have mainly used what Ghauri (2002) calls a "convenience sample", that is we have used experts we know or have heard about from our studies in Russia. The disadvantage of this method is again that the sample might be biased. We feel however that gaining access to sources otherwise hard to gain access to more than makes up for the possibility that their opinions might be biased.

1.3.3. Stage 3 – Collecting Data

Phase 1 – Secondary data

We both have very good background knowledge regarding the Russian financial sector. From our studies in Russia we have a growing interest and understanding of Russian business culture. We pay close attention to Russian media and have a broad Russian network. We have also researched literature on Russia and Russian conditions as well as theory within internationalization and networking. This has all been important to understanding our problem area.

Phase 2 – interviews with experts

Having built an understanding of the practical and theoretical problem area, we wanted to find out more on how a business goes about when establishing itself in Russia. What deciding factors must be considered? This might be challenges in international cooperation, cultural obstacles and general obstacles to do business in the area.

In order to clarify these important questions we spoke with Norwegian and Russian experts. In his way we have covered both the Russian and Norwegian perspectives, which we find strengthens the reliability of the thesis.

In this phase we consulted the following experts:

Norwegian perspectives:	Kåre Storvik[2]
	Geir Reiersen[3]
	Thor Christian Andvik[4]
Russian perspectives:	Dmitri Teryakhin[5]
	Marat Bagautdinov[6]
	Alexey Fadeev[7]

Phase 3 – In-depth interviews with Reinertsen management

We interviewed Torkild Reinertsen, President for Reinertsen AS and Svein Grande, manager for Reinertsen NWR.

An interview is, in the right sense of the word an inner picture of the interview object (Chirban, 1996; XI). Yin (1994) mentions three types of interviews: The open interview, the focused interview and the structured interview, resembling a survey in form. Our interview with Svein Grande was a focused interview according to Yin's

[2] Kåre Storvik is the owner and founder of Sherpa Consult, a company that consults businesses on Russia.
[3] Geir Reiersen works in SivaTech as International Project Manager. He has many years of experience from Murmansk and North West Russia.
[4] Thor Christian Andvik is the Statoil representative to the Murmansk based oil-business supplier organisation Murmanshelf.
[5] Dmitri Teryakhin has written a paper on the petroleum development in Russia. His study on the NWR gas-sector was published in the journal Geopolitics of Energy. He works for a major Russian oil company.
[6] Marat Bagautdinov works in Moscow for an international consulting company.
[7] Alexey Fadeev is the Director Murmanshelf.

(1994) classification. It was open, with a pre-determined set of questions that were formed with background in the data gathered in phases one and two.

Legard et al. (2003) say that an in-depth interview is supposed to combine structure with flexibility. The interview was based on an interview guide giving which main subjects and questions that had to be covered in the course of the conversation. We let the interview to flow as a conversation in order to make the interview object feel at ease and produce meaning freely. Our interview guide was therefore according to Trost's (1993) guidelines, compact with wide areas of interest. Within these areas of interest we were free to improvise and when necessary ask questions within the context of the conversation.

Chirban (1996) claims that interview situations that do not consider the interplay and dynamics between interviewer and interviewee will be inefficient and lifeless. We started the interview quite informally, discussing this and that. Common experience from Russia made it easier for us to become familiar with the interviewee, strengthening the likelihood of getting good and relevant data. Both authors have good knowledge to Russia and although we chose to have one main interviewer and note-taker we were able to supplement each other.

One of Trost's (1993) most important pieces of advice is "Do not claim, ask!" That is a very good point, and in all our conversations and interviews we have paid close attention to avoid leading questions that might make the interviewee express our views and beliefs. We have also in line with Trost's (1993) advice kept the introductory phase neutral.

Easterby-Smith et al. (2002) say that it can be difficult to assess whether vital information is accessed in an interview. The interviewee might retain information on purpose, or she could be the wrong person to talk to without wanting to admit it. In retrospect we see that the interviews with representatives from Reinertsen and Reinertsen NWR have uncovered vital and useful information, especially concerning strategic choices and with regards to inter-corporate networks. Most experts have also been refreshingly open-hearted and all in all we experienced only a single interview in which we felt that a somewhat paradisiacal reality was presented. Easterby-Smith et

al. (2002) further say that the chemistry between interviewer and interviewee may impair the quality of data. The chemistry between the authors and the interviewees has been very good. We have acted professionally and enthusiastic and met enthusiasm in return. Finally, we have kept in mind the social constructivist issues. Meaning and message are first constructed between the interviewee and the authors and then between the authors and the reader (Easterby-Smith et al., 2002). If we have felt that anything was unclear we have asked again. We have been honest and straightforward in our account of events and have sought to express ourselves as plainly as possible.

Using several different sources, secondary as well as primary, we have triangulated data. We have Russian expert's views, Norwegian expert's views, subjective and more objective views regarding Reinertsen NWR. Triangulation strengthens the likelihood that we will get a balanced account from and picture of our case (Ghauri and Grønnhaug, 2002).

1.3.4. Phase 4 – Analyzing data

In many student papers theory becomes and appendix to the thesis, standing alone and fragmented from the rest of the work. Theory is seen as necessary, but the students often experience difficulty tying theory to the actual research (Elnan, 2000). This has been a challenge to our work. It has been hard to find a supervisor with the ideal theoretical background that had time to guide us. Still, we mean that the theoretical framework presented, convey a multifaceted view of the internationalization process and different factors that influence it. Consequently, the theoretical basis for analysis is good.

Gathering data we have been aware that there is no clear distinction between gathering and analysis of data (Easterby-Smith, 2002). Perhaps the greatest advantage of writing in a group is that we have had the opportunity to discuss findings as they occurred. We are both very much involved in the research topic. Both find Russia fascinating, and are interested in politics, business and energy issues. That strengthens our analysis.

The biggest challenge when conducting qualitative research is perhaps to communicate the meaning and message that the gathered data hide. Easterby-Smith et al. (2002) say that this demands both clear explanations and examples on how raw data have been transformed into meaningful conclusions. We have clearly given all respondents and their background, and who expressed which opinions. We have presented our research model, showing the process or flow from data, via theory and analysis to a conclusion.

Furthermore we have been conscious that it is important to do other things besides the thesis. Easterby-Smith et al. (2002) give several examples that in order to preserve creativity it is important to maintain curiosity and interest in other professional disciplines. Some periods have been pretty intense, while other times we have prioritized to do other things before returning to the thesis.

Trustworthiness– Validity and reliability

Validity is simply put the ability of a test or instrument to actually measure the object of the measurement (Paraphrased from Zaltmann et al. in Ghauri et al., 2002; 70).

Reliability can be defined as the ability of a test or an instrument to produce the same result from several tests under identical circumstances. The social world is however not a clinical laboratory, but is constantly changing. Consequently reliability is hard to obtain in social constructivist research, since circumstances will not be identical for several tests.

Since the very goal of research is to be able to claim something on a more certain basis that everyday observations, reliability and validity are of crucial importance. There are many things we "know" to be true, but in order to prove or test these allegations scientifically we must pay constant attention to validity and reliability throughout the research process (Easterby-Smith et al., 2002).

Validity and reliability in qualitative research

The demands to validity and reliability will be different according to whether one works quantitatively or qualitatively and according to the researcher's philosophical standing. Some also claim that using these quantitative concepts in qualitative research (Easterby-Smith et al., 2002). In positivist tradition where quantitative methods are preferred, a universal reality is sought unveiled where the results from one test can be applied to similar situations. One seeks regular and causal connections. Within qualitative methods a different approach is chosen. Different perspectives and transparency in choice of methods and design is meant to indicate the justifiable degree of generalization (Easterby-Smith, 2002).

To attribute validity and reliability to social constructionist research might indicate the acceptance of an absolute (positivist) reality (Easterby-Smith, 2002). Still there is no denying that qualitative research has become more common. Therefore it is important to ensure the research's validity in order to make it credible. The reader, looking for information on how to establish oneself in Russia, might find the focus on methodology tiresome. The purpose behind this detailed description is however to ensure that we end at a credible result. Norèn (1995) supports this view, claiming that thorough description of the construction of the knowledge must be shown to claim credibility. We have shown how we conducted the interviews and where we found other data. We have explained the theoretical framework, the analytical process and led the reader along on the road to meaningful conclusions. Important appendixes such as the interview guide, maps and figures are presented.

Case studies

No common understanding of what a case is exists. Jacobsen (2000) says that a case study is a good approach when one seeks a deeper understanding of a certain occurrence limited in time and space. Yin (1994) says that the case study is a preferred approach when answering questions like "whom" and "why". This is all applicable to our research which is limited to Reinertsen NWR in the phase of setting up business in Russia. We seek for example to find "why" they did what they did, "who" were motivators, decision makers and "who" they consulted?

Many variables and factors play a role in the process of setting up a business. For instance the local authorities will involve themselves in a different way than in Norway, forces within Reinertsen and in Reinertsen's expanded network may be significant and even high-level politics and politicians. Case studies are useful when the research phenomenon is hard to study out of its natural context and when the phenomenon and its variables are difficult to quantify. Often, many variables must be taken into consideration, something which makes other methods difficult to use (Yin, 1994).

Our goal is to achieve and convey an understanding of Reinertsen's business venture into Russia. We do not want to compare several business establishments or generalize to a broader selection. We will analyze Reinertsen's choices by looking at factors that affected those choices with the final goal to come to a conclusion regarding why their establishment has been successful. A relevant objection here might be that it would be interesting to compare more businesses than one. We do to a certain extent agree, but the fact that North West Russia is an emerging market makes it hard to find similar petroleum sector cases to compare. For those interested in reading about internationalization to Russia on a more general basis, several formers student papers on the subject can be found in HBO's library. Our research becomes part of this tradition and takes it a step further, actually analyzing someone who did establish themselves, instead of looking at how it can be done.

Generalization

Lincoln and Cuba (2002; 27) say concerning case studies: "The only generalizable fact is that one can not generalize". We have also mentioned above that it is disputed whether qualitative research may be generalized. Reinertsen AS distinguishes itself in many ways from other Norwegian actors in North West Russia. It is one of Norway's largest suppliers to the petroleum business. The company has large resources concerning capital, technology and competence. Therefore our findings will not be directly applicable to smaller companies seeking to establish themselves in North-West Russia.

Still, the thesis presents a relevant picture of today's Russian business climate. We explain how Reinertsen has approached the magnitudous task of establishing themselves in Murmansk and what they learnt underway. Many of these bits and

pieces can be useful to smaller businesses. Here the term transferability is central. It is different from the term generalizability in that not the whole, but only elements of the research can be transferred to other "appropriate" situations (Lincoln and Guba, 1985).

1.3.5. Phase 5 - Reporting

Form

Before we start reporting, we must decide who our target group is and what the purpose of the thesis is (Ghauri and Grønnhaug, 2002). This thesis is a master's thesis, something which sets forth various requirements as to form. The thesis must be detailed and clearly express how we arrived at a final result. Our target group, besides counselors and censor, is Reinertsen AS and others interested in the process of establishing business in Russia. This is a potentially diverse target group, it is therefore important that the paper makes interesting reading also to those not too familiar with Russia or internationalization theory.

We have put much emphasis on defining uncommon terms and otherwise make the thesis as readable as possible. A thesis shall ideally be clear, to the point, coherent, lively, exciting, meaningful and free from pedantry (Sekaran, 1992; Rubin and Rubin, 1995. Paraphrased from Ghauri and Grønnhaug, 2002).Now you might want to object that a reference taking up an entire line certainly is somewhat pedantic. It is however crucial in order for the thesis to have research value that referencing and other unalterable requirements are followed.

Findings

Here we present the empirical data we found. This section is the centerpiece around which the other sections are constructed. We have divided the section into smaller parts, focusing on Russia in general, the business climate Russia, Reinertsen AS, Reinertsen NWR, the Norwegian and Russian petroleum industry and so forth. We wanted to create an interesting and relevant story on Russia today. This chapter is highly relevant, as it presents a snapshot of the situation as of today and may very well be read independently from the other chapters.

Analysis

Here we evaluate and discuss the facts that were presented in the background and case study chapters. We explain what may be transferable[8] to other, appropriate situations. We recapitulate theoretical issues and empirical data to present a coherent analysis of the different factors that together constitute Reinertsen NWR.

1.4. Strengths and limitations of the thesis

A weakness in one aspect may be a strength in another aspect. We initially wanted to do a comparative study, but ended up doing a single-case study. Arguably a weakness of the thesis may be the specificity of the research object. That will make it difficult to generalize and draw parallels to other situation. This weakness becomes a strength however, taking the detail level of the research into consideration. One detailed account may be more valuable than several more superficial accounts, which would have been the case had we been in a position to expand the research to other objects.
Reinertsen has used much resource on their establishment in Russia. We appreciate their foresight in that they are willing to share their experiences on a detailed level. Clearly, this thesis contains much valuable information that can be applied to smaller actors looking at the Russian market.

We are both very up to date on current affairs in Russia. We also have a strong interest in the Russian petroleum sector and Russia as a place for doing business. We read a lot about Russia, both in the media as well as history and social science. We have lived in Russia and are in a position to comment on cultural and systematical differences from Norway.

The anthropologists Goodenough (1970) and Harris (1980) talk about emic and etic types of data. The term etic is used to refer to the detached observer's view, while the term emic is used to refer to the view of a participant. Scientists interested in the local construction of meaning, and local rules for behavior, will rely on emic accounts; scientists interested in facilitating comparative research and making universal claims will rely on etic accounts. Although our main goal is not to make universal claims, but to uncover and communicate the local construction of meaning, our wide background

[8] See the paragraph on Case Studies above, on the term transferability.

knowledge is strengthening the thesis in the way that we can be seen both as actors in and as observers of the Russian society.

1.5. Ethical considerations

Ethical codes are aimed at preventing serious and unambiguous cases of abuse and most of the ethical issues the researcher faces are small-scale, incremental and ambiguous. Therefore researchers should be thinking, reflective and prepared to ask difficult questions (Easterby-Smith et al. 2002). Asking the difficult questions is not easy, especially if the chemistry between interviewer and interviewee is poor. This is an important ethical consideration for this thesis, and something which has the potential to seriously affect both validity and reliability.

Russia is no place for little boys or girls. It has been a real possibility that we could stumble upon information that could be ethically questionable. If so, given it was relevant, would we present it in our work? Still no such incidents occurred. Even if they would, have, something we doubt, it would not have mattered much if we made it public. Our credibility as researchers is not strong.

Another similar consideration goes on the role of the qualitative researcher and the ease of adapting research data deliberately or unconsciously to make the findings more interesting[9] (Easterby-Smith et al. 2002). It is not easy to decide what to leave out and what to include in the work and how to interpret it.

[9]Take for instance the Sudbø case, where a medical researcher deliberately manipulated data in order to arrive at groundbreaking conclusions. In qualitative research, such data manipulation is hard to test, and perhaps even more tempting.

Summary

In this chapter we have discussed the methodological approach to our research. We have elaborated on our philosophical standing clarifying that different people will see things differently according to their background and world view. We have gone through Kotler's 5 stages of successful research, explaining our approach in formulating a research question, making a research design, collecting, analyzing and presenting data. The issues validity, reliability and generalizability have been elaborated upon to communicate what makes this thesis valid research. Finally we have discussed briefly strengths and limitations of the thesis as well as ethical considerations.

Frame of reference

The purpose of these two chapters is to provide a brief overview of the literature on internationalization research. We also provide definitions of and present important issues regarding cultural aspects.
This part of the thesis, leading ultimately to our research model, will serve as the theoretical frame of reference for discussion and analysis of Reinertsen's success in their establishment in Murmansk.

2. Cultural Differences

In the 19th century, the term culture was commonly used as a synonym for Western civilization. The rest of the world was often seen as barbarians or savages by westerners considering their own culture superior. But also the Eastern culture, the Asian, the Arabic and others thought their culture was superior (Jandt, 2004). So, who were right, and is there a tool to measure which culture is most superior?

2.1. Is it possible to understand Russia?

Russia is a riddle wrapped in a mystery inside an enigma
-Sir Winston Churchill

Russia has a population of around 140 million comprised of more than 100 ethnical groups (Smetanina, 2006). The vast geographical and regional differences imply the relative heterogeneity of the Russian population. That makes it hard to generalize to Russia as a whole. Nevertheless the Soviet period has to a large degree affected the "manner" of the Soviet citizen. Thus Russians and for that matter other former Soviet republics share a common Soviet past, making them more homogenous as a group (Smetanina, 2006). The authors agree with this. Having been part of a group comprised of people from among other Russia, Chechnya, Georgia, Kazakhstan,

Ukraine and Turkmenistan we found that they to a large degree shared similar views and opinions.

Unlike the western part of the world Russia does not have a democratic tradition. Historically, Russia was ruled by the Mongolians from 1240 to 1480, the Tsar regime after that and finally by Communists from 1917 to 1991. Russia did not, like Europe, take part in the Renaissance or the Age of Enlightenment. At that time they were too busy slaving for the Tsar. The Russian farmers were legally the landowner's property until 1861 and in practice even longer. This led to a vertical authoritarian social system with a poor basis for development of society and organizational diversity (Hønneland & Jørgensen, 2006). Despite educating the population and egalitarian in theory, the Soviet Union was also an authoritarian and in periods totalitarian state. These factors have, as we will show, all affected the Russian culture.

2.2. The complexity of culture

Knowing another culture's complexity helps you understand the opportunities and challenges that this culture possesses. But we can have no direct knowledge of a culture other than our own. Our experience with, and knowledge of other cultures is forever limited by the perceptual bias of our own culture. "An adult Canadian will never fully understand the experience of growing up an Australian" (Jandt, 2004: 8). Similarly it is difficult for someone from Trondheim to understand how it is to grow up in Murmansk, not to speak of growing up in Murmansk during Communism. Although the geographical distance is not great, the psychological distance certainly is considerable.

To begin to understand a culture, you need to understand all the experiences that guide its individual members through life. Language and gestures, personal appearances and social relationship; religion, philosophy and values; courtship, marriage, and family customs; food and recreation; work and government; education and communication systems; health, transportation, and government systems; and economic systems play a role. Think of culture as everything you need to know and do so as not to stand out as a "stranger" in a foreign land. Culture is not a genetic trait. All these cultural elements are learned through interaction with others in the culture (Jandt, 2004).

It is important to have in mind that inside cultures you find subcultures, co-cultures and subgroups (Jandt, 2004). A subculture may represent a large number of people based on economic and social class, ethnicity, race or geographic region. A co-culture may be seen as a culture which different from the main culture but not less superior. They may have their own language, own practices and so on, for example the American Indians or our own Sámi people. A subgroup may include doctors, police officers, customs services, and employees of large organization such as Statoil or Gazprom.

2.3. Hofstede's 5 cultural dimensions

A person's thought and action pattern is related to the cultural context the person belongs to (Hofstede, 2003). The famous sociologist Geert Hofstede's (2003) five cultural dimensions gives a better understanding for understanding the differences in management practices across cultures. From a comprehensive study on how values in the workplace are influenced by culture, covering more than 70 countries, Hofstede developed a model that identifies 5 primary dimensions to assist in differentiating between cultures. The dimensions which are widely used to understand cultural difference are as follows:

- Power Distance

  Defines the degree of acceptance in an organization or country of unequal distribution of power.
- Collectivism / Individualism

  On the other side of individualism are collectivism. This dimension defines the degree to which individuals are integrated into groups or act as individuals.
- Masculinity / Femininity

  Hofstede found that women's values are more equal between cultures than those of men. Men range from being modest and caring on one side to being assertive and competitive on the other side. Women on the other hand seem to be more alike across cultures.
- Uncertainty Avoidance

  Indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. It ranges between for

instance a totalitarian society where the one's in power owns the truth and a more relativist society where different flows of opinions exist side by side.

- Long-term Orientation

  Values associated with long-term orientation are perseverance and thrift. Respect for tradition, fulfilling social obligations and protecting one's face is characterized as short-term values.

Source: Hofstede (2003; 2007).

Hofstede's cultural dimensions applied to Norway and Russia

Country	Power distance	Individualism	Uncertainty avoidance	Masculinity	Long-term orientation
Norway	31L	69M	50M	8L	20L
Russia	95H	50M	90H	40L	10L

Table 1: Overview of Hofstede's cultural dimensions in Norway and Russia.
Sources: Raghu (1988), Hofstede (2007)

The table shows the differences between Norway and Russia. As expected, a much higher degree of power distance is accepted in Russia. That can perhaps be attributed to the authoritarian public power structures and to the hierarchical structures that are common both in public and private organizations. The historical background for this trait goes way back. For instance the concept "The good czar" implied the acceptance of farmers and poor people that the czar had indefinite power and he knew what was best. All bad things that happened were someone else's fault. The wish for stability and growth in Russia stands strong. The authors have self found that the belief that a firm and powerful leader is needed to achieve that is very common among Russians. Many Russians, even today, mean that Stalin did a good job. He, according to them, the kind of leader the Soviet Union needed to keep the vast empire together.

When it comes to individualism the index scores are close to each other. It seems that the heritage from Communism wasn't rooted that deep, and that Russians are comfortable in a role both as individuals and in groups. Still, the score indicate that a Russian is willing to sacrifice more for the group than a Norwegian.

Uncertainty avoidance is high in Russia. That implies that the search for a truth is common. The Soviet regime was a propaganda expert, spreading its truth effectively

through the Soviet Union via state controlled newspapers, television and the Communist Party. Religion, which was suppressed during Communism, has regained a strong position in Russia today. Also the fact that Russians prefer one strong leader shows itself through strong uncertainty avoidance. Most of the larger media in Russia today are once again centrally controlled, thus it is difficult for a common Russian to subscribe to any other truth than the government version. Nor is there widespread desire to seek other views.

Russia is according to Hofstede's classification not a very masculine country. Still it is more masculine than Norway and although most Russian women are occupied and have a visible society position, the men have the authority. The masculine orientation in business is shown in that a leader is supposed to be assertive and omniscient, never admitting to making errors (Swahn, 2002).

Long-term orientation may be connected to individualism in some way. Anyway, we see that neither Norwegians nor Russians are especially concerned with social obligations and traditions. A reason for this may be that loyalty is generally not rewarded and that short-term gains are more favorable than long-term stability.

In the end it must be noted that the Hofstede scores cannot be applied to a single individual. The reason we include this theory is that it says something about the general culture and mentality of a group and can in that way be useful to reflect over when meeting people from other belongings.

2.4. Russian business culture

Reinertsen NWR is a Russian company located in Russia and with Russian employees. The customers are however not Russian and the demands for adhering to specifications are very strict. In order to maintain control over the business and satisfy strict demands, Reinertsen NWR's manager is Norwegian.

The role of the leader in Russia is fundamentally different from the role of the leader in Norway. Swahn (2002) gives many examples in her doctorate thesis on the differences between Russian and Norwegian business culture. While the leader in Norway is expected to cooperate with and facilitate the work of his colleagues, a

Russian leader is supposed to be an omniscient decision maker. It is often seen as a sign of weakness for a leader to seek the advice of colleagues below him in the hierarchy. The Russian business style is much more hierarchic and the leader is often not as involved in the everyday business of the company. The negative aspect of this is apparent: The leader, distanced from actual business, may make decisions on failing ground. In Norway he would most likely be corrected by his subordinates, while in Russia the subordinate will in many cases perform the work he has been told to do, regardless of whether or not he realizes that is not the best way to do things. In many cases, says Swahn (2002) the subordinate will perform work he knows to be wrong, since his boss told him to do it, something which, per definition, makes it correct.

Swahn (2002) found that rules regulate a Russian workplace to a much larger degree than in Norway. To the confusion of foreigners many of those rules can be bent however. The application of rules depend on the objects relations to the rule giver and the position of the person regulated by the rule. The higher the position, the more the rules can be bent.

The personal relation is given much more weight in Russia than in Norway and decision makers find it necessary to know each other on a personal level before committing to a deal. Once a contract has been signed it is seen as a guideline or an agreement of intention rather than set conditions and can be subject to informal changes.

This can be viewed in connection with how planning is perceived in Russia. A Norwegian business meeting is a smooth, solution-oriented process towards a result. A Russian business meeting is more loosely structured and concerned with power distribution. It is also seen as important to take the word to be noticed. Eloquence and appeal on a personal level is appreciated (Swahn, 2002).

Russians are more short-term minded than Norwegians and might not stick to a plan. Efficiency is not as in Norway seen as the ability to finish a task in a short time, but as the ability to reshuffle according to priorities. For instance, doing something for someone one has close personal relations to might be prioritized before an ongoing task (Swahn, 2002).

Swahn (2002) also elaborates on the Soviet heritage of Russian business life. Low service quality is seen as a result of working in formerly state-imposed jobs and no incentives to satisfy the customer. Business competence is generally low. During Soviet times terms such as "market planning" and "organizational development" did not exist in the Russian vocabulary. She also argues that a suspicion towards foreigners and money-makers or a combination of these is present. The fear of being used is present. Paradoxically, at the same time the foreign business partner is expected to help in all situations where lack of knowledge or capital might pose a problem.

Lastly Swahn (2002) shows that the idea of Russia as something unique is very much present: Russians feel that they have a special place in this world, unlike any others. Their nation is great in terms of resources and opportunities, but also in terms of difficulties. That also includes special challenges that can not be solved in an unrussian manner. Going to Russia as a "know it all" is the worst thing a foreigner can do, and he will be despised for it.

Summary

In this chapter we have provided some insights into the complexity of culture. WE learn that values are influenced by culture, also in the workplace. Through Hofstede's 5 cultural dimensions and Swahn's (2002) studies on differences between Russian and Norwegian business cultures some of these values have been elaborated upon.
Russians and Norwegians are in many cultural aspects noticeable different, something which in many cases lead to misunderstandings and conflict.

3. Internationalization literature

"In the new global economy, there is no place for companies to hide from foreign competitors - all companies need to plan for growth and survival in a world of global competition"

-Franklin R. Root

3.1. What is internationalization

The concept of internationalization involves companies which exports goods and services, produces abroad, offers services towards foreign markets and so on. Welch and Luostarinen (1988) emphasize that internationalization is a process, which increases its involvement in a company's international operations. They call this a "working definition", but stress the importance of considering the process to be seen from both inside and outside the company. In relation to the company's internationalization process, it is important to gain knowledge on the company's internal processes (Framnes et al. 1997). The authors also stress that international success is connected to domestic success. If one succeeds at home it may be tempting to seek opportunities in new markets. Mcdougall & Oviatt (2000) see internationalization as the combination of innovative, proactive and risk willing behavior which crosses national borders and is meant to create value for the company. Black (2002) defines a MNC as a firm conducting business in more than one country, through branches or subsidiary companies.

3.1.1. Why internationalize?

There are many reasons for a company to internationalize. Many large firms are multinationals, and a considerable proportion of international trade is between multinationals and their own foreign branches or subsidiaries. While multinational operation presents some legal and organizational problems, many firms find it worth while. It brings them closer to suppliers and markets, they can take advantage of international differences in resources and costs, the benefits of research and development can be spread over wider markets, and it gives a wider spread of risks.

Multinational operation also improves their bargaining position in negotiating with national suppliers, governments, and trade unions.

As an overall motive may be stated that companies which want to take part in an international market want to gain competitive advantages (Wheelen & Hunger, 1990). The internationalization literature categorizes the motivational factors leading to internationalization as either internal or external.

Important internal stimuli:	Excess capacity
	Unique product
	Strategic advantages – e.g. technology
	Marketing advantages
	The person of the decision maker
Important external stimuli:	Saturated home market / recession
	Better opportunities for rents
	Follow a customer's internationalization process
	Follow competitors

(Ahokangas, 1998; Delaney 1998, Hodne & Rosendahl, 2000).

3.1.2. The person of the decision maker

To take part in the global market certain understanding is needed; an understanding that is reached by giving up the old way of thinking (Ohmae, 2000). Delaney (1998) says it is all about seeing things others do not see. It is not only about certain ways of doing things but also certain ways of thinking. To illustrate what qualities a manager should posses to have greatest possible opportunity to succeed, she lists up 12 points:

1. You should like changes
2. You should take new experiences with open mind, not only positive but also the negative crises
3. You should be flexible, take risks and be innovative
4. You should be willing to learn as much as possible about the new culture
5. You should be energetic, patient and accept differences
6. You should be comfortable with oneself
7. You should be passionate, enthusiastic, playful and curious

8. You should have been in other cultures during longer periods, experienced it as the habitants and want to go back
9. You should appreciate the concept of internationalization more than the trade itself
10. You should have control over both big and small relations with the internationalization
11. You should be inspired, and inspiring, team leader and leader
12. You should have a great courage

3.2. Different perspectives on the internationalization process

"... there is no consensus on empirical evidence as to which forces generate the process of internationalization or hold it back."

- Jesper Strandskov

According to Welch and Luostarinen's (1988) definition, the traditional approaches towards internationalism imply that a company's degree of internationalization can be determined on a scale that goes between a purely domestic and a fully internationalized company.

There is no consensus regarding the forces that generate internationalization. There is however an abundance of literature on the subject of internationalization, applying different perspectives as a starting point of research. We present below the main features of the different perspectives towards the internationalization process.

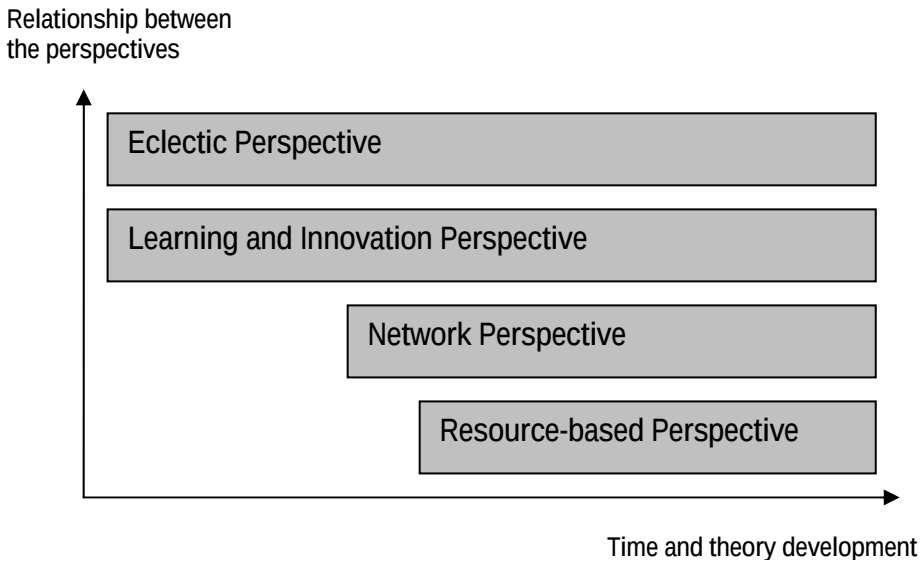


Figure 3: The development of and relationship between different perspectives on the process of internationalization (Ahokangas, 1998).

3.3. Learning and innovation adoption perspectives

The Uppsala model which was developed by Johanson and Vahlne (1977) forms the basis of the learning perspective on internationalization. Their hypothesis is that competence is developed parallel to the internationalization process. It shows that many steps in the process occur as the commitment and investment in the foreign markets increase. At first the company has no export activities. In the next step the company becomes an exporter through an agent abroad. Then the company establishes sales outlets in the country. In the fourth and last step the company starts production in the country.

According to the theory the company will start the internationalization process in a country or market not unlike the home market. The low "psychic" distance between the home and abroad markets is supposed to yield greater possibilities than would have been the case entering a more unknown market. The company decreases the risk by operating in similar markets before entering the more dissimilar ones. Choice of market may come as a result of former experience. The direction and patterns of the internationalization process is influenced by the company's strategies towards risk and uncertainty (Strandskov, 1995).

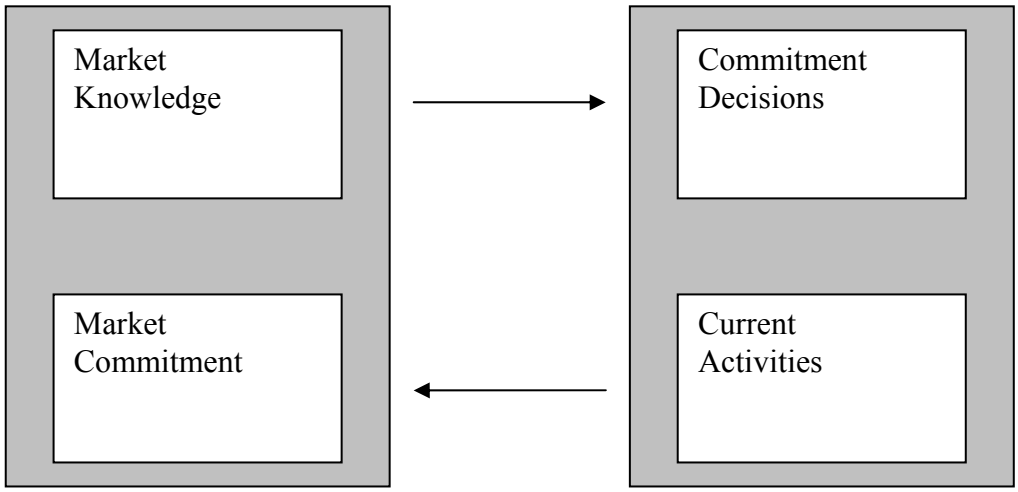


Figure 4: Mechanisms for internationalization (Johanson & Vahlne, 1977)

This dynamic model shows that market knowledge and market attachment affect both attachment decisions and the way decisions are taken at the moment. These will again change market knowledge and market attachment. The uncertainty surrounding the investment / commitment will be reduced when the company builds up knowledge around the new market. This is best done by activity and presence (Johanson & Vahlne, 1977). Increased market knowledge leads to increased market attachment and vice versa. The incremental process which takes place is of a character that makes the company gain gradual experience and thereby gradual involvement in the market.

3.3.1. Different types of knowledge

It is important that the company makes the decision to invest in a foreign market on a foundation of knowledge and experience from the market, and that there are not any other alternative investment which will be more profitable (Andersen, 1993). The market knowledge may be divided into general and specific sections. Specific knowledge will be most important, since it reduces uncertainty and creates opportunities (Johanson and Vahlne, 1990).Specific knowledge is acquired through experience from the company's activities in the market.

Another division is between market and company experience. If the access to the "know how" is through external sources it is called market experience. For this experience to be related directly to the company, it is important that the person standing outside gains as much information as possible about the company. This makes it difficult for a company to use external consultancy in the internationalization process (Johanson & Vahlne, 1977).

3.3.2. Innovation related models

According to these models, internationalization can be viewed as the learning process associated with the adoption of an innovation or a new idea. The idea of a process leading to more commitment and resources applied in the internationalization process is apparent. The difference from the learning perspectives is that the process is seen to be less dynamic. Instead of a dynamic model, Bamberger & Evers (1993) present an empirically based model showing that incremental steps take place, building internationalization experience and resources block by block.

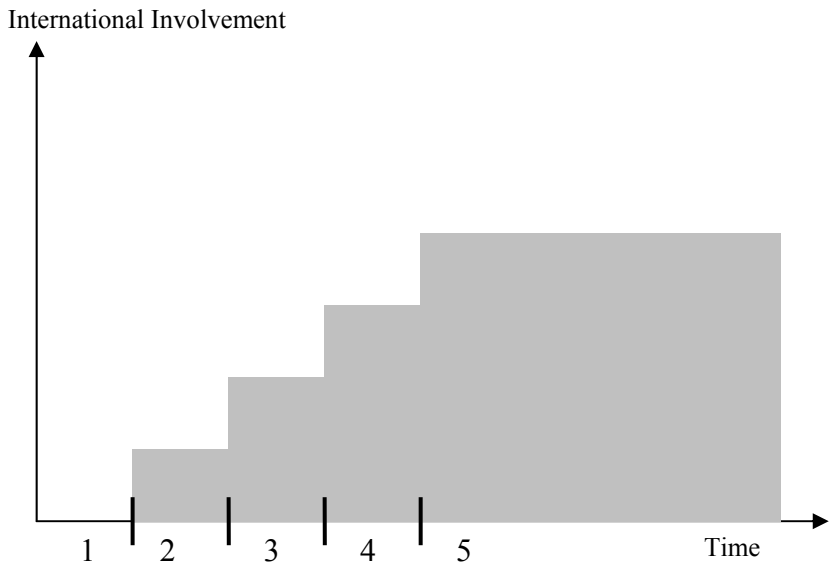


Figure 5 Five-stage model of internationalization (Bamberger & Evers, 1993)

In the first stage the company is domestically oriented. It has no interest in pursuing internationalization activities in the near future. In phase 2 the company envisages the opportunity of starting such operations, as a result of internal or external stimuli. The third stage is reached when a notion of the possibility of achieving rent by internationalizing is apparent in the company's management. The fourth stage occurs with the increase of export operations and other establishments abroad. To reach this stage, the experiences from stage 3 must be positive and resources allocated to the internationalization effort must be sufficient. Stage five indicates that the company is committed to its foreign operations, which are seen as an integrated part of the company.

In conclusion, the learning and innovation adoption models have been used to analyze both large and small companies. The focus of this perspective is the incremental nature of the internationalization process, be it cyclic, stage-based or evolutionary. A weakness with these models is that they describe the process of development, not the motivation and considerations behind it.

3.4. The network perspectives

Johanson & Vahlne (1990) developed the Uppsala model further, applying a network perspective. Their work was developed among others by Johanson & Mattson (1988) and by Welch & Welch (1993) who put great emphasize on the network in the learning process. They claim that a company's position in an international network is a result of the cumulative result of earlier network activities, formal as well as informal (Welch & Welch, 1993).

According to Haugland (2004) there are four main motives for international company cooperation:

1. Access to new international markets through cooperation with a local partner

   The advantage here is that you may gain access to local market knowledge and that you gain knowledge on how to best serve the market. In some markets the cooperation can also bring some form of extra legitimacy.

2. A cooperation which gives access to existing companies' distribution channels

   By connecting to a company with a developed distribution channel, you may find a way to avoid building up your own from scratch. One disadvantage may be that the access to market information can be somewhat limited and that you become very dependent on your partner.

3. International subcontractor

   This is for companies which deliver components, input factors, semi-products and so on to customers using them in their own production. The products are usually specially fitted and the production happens in close contact with the customer. The company's production processes often have to be carefully coordinated, which makes it unlikely that the customer change their sub-contractor.

4. Cooperation for developing different package solutions and concepts

   If the company does not produce a whole package solution, one may join other producers. Together one therefore may deliver a total concept for the customer and thereby be more attractive. Internationally there is a clear tendency towards companies reducing the total amount of sub-contractors and rather trades with fewer whole package solution suppliers.

Anderson (2000) emphasizes personal networks as an important success criterion. Ford (1990) says that important information and contacts in international markets are often achieved through networks. Trough networks you may also increase the resource foundation and skill level. Haugland (2004) points out that cooperation between national and international companies may be a tool to succeed in a harder and more international competition. He further calls attention to the fact that a cooperation presents new organizational and leadership challenges for the management, of another character than for managing a solely internal internationalization effort. The process of managing cooperation is not always easy. Barringer and Harrison (2000) show in their studies that almost 50% of all co operations fail before the realization of the expectations, and in some cases as much as 70% (Day, 1995). The risk in co operations is in other words found to be substantial.

Perhaps the main idea behind the network perspective is that companies are interdependent, both in terms of cooperation and competition. Examples of important variables of analysis within this perspective are: What is the role of the company in relation to the other actors in the network? How important is the relationship? How strong is the relationship? In order to gain access to strategic resources, firms may co-operate vertically, with respect to product flow, or horizontally with competitors, in other words, by entering into network relations (Ahokangas, 1998).
The demands resting on the company is different according to what relative position it has in the network. Johanson & Mattsson (1988) developed a model of different situations a company can find itself in.

		Degree of internationalization of the network	
		LOW	HIGH
Degree of internationalization of the company	LOW	The Early Starter	The Late Starter
	HIGH	The Lonely International	The international among others

Table 2: Internationalization and the network model: the situations to be analyzed (Johanson & Mattson 1988)

The internationalization strategy of the company can be characterized by the need to 1) minimize the need for knowledge development, 2) minimize the need for

adjustment, and 3) exploit established network positions (Johanson & Mattsson 1988).These demands differ according to placement in the model.

The case Reinertsen is classified either as an early starter (the first to establish itself in Russia) or a late starter (its competitors went to low-cost production areas before Reinertsen). The most relevant approach in our case is Reinertsen as the early starter, since it is more or less alone in Russia today.
For the early starter these demands put a great deal of pressure on the company as it is the first to develop the network, and the cost of developing knowledge and adjusting its operations may be substantial. Quantitative resource adjustment is important to create the desired size of the subsidiary. Qualitative resource adjustment plays a role in allocating and developing knowledge where it is needed.

A weakness of the network models in putting so much emphasize on the network aspect of internationalization is that strategic issues may be overlooked (Ahokangas, 1998). In line with this the strong focus on the network limits recognition of the company as heterogenic. It has been empirically proved that the network may create the basis for the internationalization of the company, while further study on use of resources and strategy within this perspective is needed (Ahokangas, 1998).

3.5. Resource based perspectives

The resource based perspectives seek to develop adaptive and flexible resource based theory, focusing on sustainable and costly-to-copy attributes or resources of a company as the fundamental driver of the company's competitive advantage (Ahokangas, 1998). A company's ability to achieve and keep profitable market positions depends on its ability to gain and defend advantageous positions with regard to relevant resources important to the firm (Ahokangas, 1998). Intangible resources based on knowledge are important in the theories. The ability to learn and improve those intangible resources is also seen as a crucial factor. Tallman & Fladmoe-Lindquist (1994) present a model where the internationalizing company is characterized by two factors: Resource availability and interest in capability development:

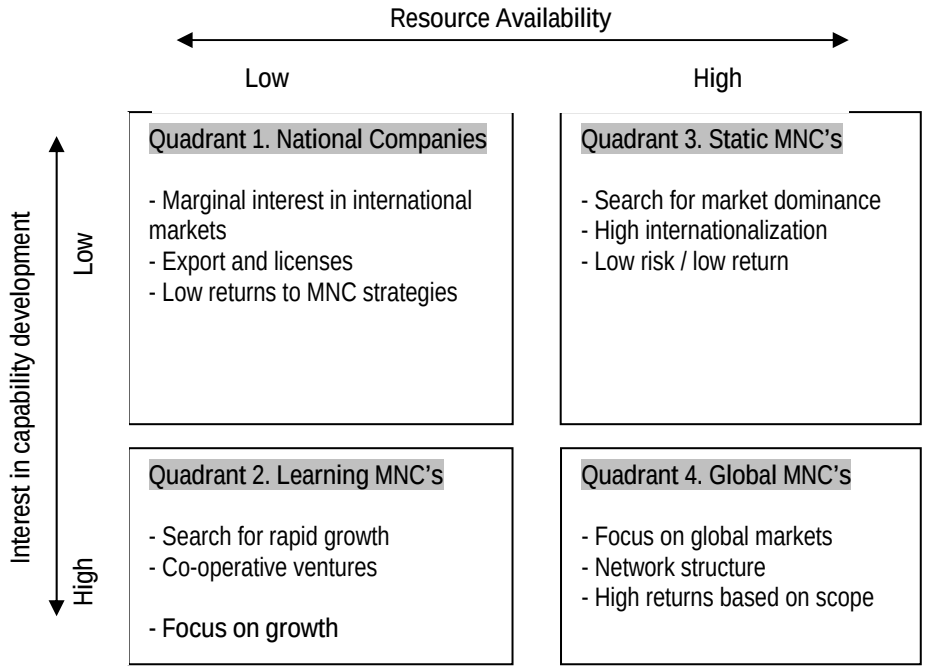


Figure 6: Resources, learning and MNCs (Tallman & F-Lindquist 1994)

Tallman & Fladmoe-Lindquist (1994) put forth a view of internationalization as a rational process, since their model assume that strategies are determined according to available resources. Capability can also be seen as a resource, as different companies will have different capabilities for instance for learning. That will in turn affect the company's performance.

A company in Quadrant 4 is classified as a global multinational. It has departments in many different locations in a network structure. Although Reinertsen may be somewhat smaller than a Global MN, the situation is analog to their decentralized localization of engineering departments. At this level it is crucial to develop a capability for network-learning, otherwise performance will be poor. Tallman & Fladmoe-Lindquist's (1994) places the company according to resources and capabilities. They explain what factors are important to consider at the different stages. They do not however explain a company's development over time (Ahokangas, 1998).

Hurry (1994) sheds more light on the internationalization process of the company. He claims that the firm's strategies are determined by the resources at hand and the

matching of those resources with opportunities. Strategic variables are constituted by options of entry, flexibility, exit and integration. Current resource availability, such as manpower, money, market access etc. etc. determines which variables can be chosen (Ahokangas, 1998). Timing is in other words essential and investments must happen at the right time and be of the right size in order to exploit anticipated future developments.

In conclusion resource based models are used to analyze the behavior of companies and in some cases their development over time. In the resource-based models, much attention has been paid to the learning, resources, and activities of the firm as important elements in determining opportunities for rent (Ahokangas, 1998).

3.6. Eclectic perspective

Eclectic theory grew out of John Dunning's work in the 1970s to respond to the growing role of international production and the emergence of the multinational companies (MNC) in the world economy. The word eclectic means using ideas and beliefs from different sources (Merriam-Webster, 2007). The theory, or paradigm as it came to be known since the 1980s, was developed from multiple streams of economic theory. It emerged from a shift in the economic theory from focusing on location factors towards incorporation of factors associated with ownership and organization of economic activity (Tolentino, 2001). Eclectic theory has been widely used to study which factors determine the location and the growth of FDI. Dunning (1973) used the theory to examine the level and pattern of foreign value-added economic activities in companies and countries. The range of variables used to explain the choices made by the company is broad and takes into consideration aspects of the company as well as its environment. The theory is by many considered to be more applicable to a macro economical level but its richness in explaining the motivation of a company for undertaking different actions makes it appropriate for analysis on a company level (Dunning, 2001). The lack of a holistic model identifying and evaluating the significance of the factors influencing both the initial act of foreign production and the growth of such production led Dunning to favor an eclectic approach (Tolentino, 2001). This led to a framework being established, allowing other complementary and alternative theories and models to exist alongside the eclectic framework. The central

thesis is that the factors Ownership, Location and Internalization interact to decide productivity and sustainable competitive advantages.

A: Ownership advantages: The investing company must have an ownership advantage over competing companies in the host[10] country of FDI. These advantages are resources and assets that are capable of generating a future income stream (Tolentino, 2001) and can be both tangible and intangible. These advantages represent significant returns to scale, as the cost of transferring them for use is low. The ownership advantages represent the main asset of a company, because they represent the market or cost advantage of a company. It is important to develop and protect these advantages as competitors will try to copy them. Examples of ownership resources are natural resources, capital, manpower, technology, organizational and entrepreneurial skills, knowledge and access to markets.

The fact that all business includes some transaction costs leads to the conclusion that an internationalizing company must have Ownership advantages. The assumption rests on the fact that a company will experience larger transaction costs when going abroad in a new market. Competing with local companies with smaller transaction costs, the ownership advantage compensates for the costs the internationalizing company has relative to local producers. These costs are costs of setting up and operating a foreign business (Ahokangas, 1998).

B: Location advantages: The host country of the FDI must possess some kind of location advantages that favor FDI; otherwise the company would focus their resources (Ownership advantage) in their home market. The Location advantage is not transferable to other locations and is in other words immobile (Dunning, 2001).
Dunning divided Location specific advantages into three groups:

1. Access to and relative cost of production factors that can only be exploited by a company in a certain area:

Firms often benefit from their localization. Access to resources when operating in the right place strengthens a company's abilities to develop its resources. Input factor cost

[10] Host country in this context means the country to which the internationalizing company extends its business.

such as the cost of labour has been one of the main motivators for labour intensive industry to relocate from Norway to cheaper labour markets in Eastern Europe. That labour is not easily relocated, and it would generally be more cost-efficient to move production instead of moving the labour, although that has also been done. Another example: In the early days of refining oil, refineries were located close to the drill head. The refineries were inefficient and a quarter of oil ended up as waste in the process. In order to keep the cost of crude to a minimum (saving transport) the refineries lay close to the wellheads. Today waste is around 4% and it is more cost-efficient to refine oil in large refineries receiving oil from several different fields around the world (Browning, 2006).

2. Taxes and trade barriers:

These variables are created by governments and might be changed. Many companies consider these variables such as incentive programs, tax rates, tariffs, investment climate, political climate and import control before they enter a market. FDI is a main driver for economic development of a country, and the debate on this subject has become very complex[11].

3. Transportation costs and market access:

In many industries, such as the food industry, where quantity is high and margins are low, distance and transportation costs are important, and the company will seek to establish itself close to the market. In more knowledge intensive industries producing high technology or immaterial products closeness to the market is less relevant. In some cases it may also be desired to locate within a certain country in order to gain market access on background of absolute and non-tariff trade barriers. For instance in Russia it is desired that the larger part of deliveries to the petroleum sector come from Russian companies (Murmanshelf, 2007).

[11] Many governments, especially in emerging markets are eager to attract FDI and consequently adapt its regulatory regime to facilitate new entries. Some critics have argued that large MNEs have substantial bargaining power and may use this to take a higher share of the value added than is desirable to achieve economic development in the country (Minde, 2000).

Examples of location advantages are low-cost input factors, high quality human capital, a large market, clusters, good quality infrastructure, favorable government policies, favorable business culture, low psychic distance.

C: Internalization: It must be more profitable for the company to internalize the Ownership and Location advantages in their own operations rather than using arms-length arrangements (such as leasing, licensing, franchising, and joint venture). If it is not more profitable for the company to make transactions based on Ownership and Location advantages internal, they might as well sell, license, lease etc. their Ownership advantage to another party. Internalization strategies are followed up to the point

Principal-Agent theory:
A reason why it could be more profitable to internalize the Ownership and Location advantages is that it is impossible to write controllable and enforceable contracts with a foreign partner truly reflecting the worth of the advantage being marketed (Norman, 2001). It is difficult to align a partner's (agent) interests with those of the mother company (principal). This is what is known as the principal-agent theory. In order to prevent a partner from using its superior host market knowledge to act opportunistically on the mother company's expense, the mother company internalizes its advantages.

Transaction cost theory:
The transaction cost theory was developed by Ronald Coase in 1932. He claimed that when a company tries to determine whether to buy or produce the goods itself, market prices are not the sole factor to consider. There are also significant transaction costs: search costs, contracting costs and coordination costs. Those costs often determine whether a company uses internal or external products and services (Watkins, 2007).

Even though the internationalizing company faces additional costs compared to its host country competitors such as discrimination towards foreign companies, language and cultural barriers etc. it could more profitable to do the work themselves. The reasons for this are that a multinational company can transfer information and services internally more effectively than by communicating with a market. Buckley & Casson

(1976) see the multinational company as an "international intelligence system for the acquisition and the collation of basic knowledge relevant to R&D, and for the exploitation of commercially applicable knowledge generated by R&D" (p 35).

Buckley & Casson (1976) focused especially on the existence of market imperfections, which generate benefits of internalization. Here, a distinction was made among five elements; 1: The absence of futures markets for knowledge production, requiring both the planning of knowledge development and its exploitation by the firm. 2: The inability of external markets to allow optimal price discrimination when selling proprietary knowledge. 3: The frequent occurrence of bilateral bargaining problems between monopolistic suppliers and monopsonist buyers of knowledge. 4: Buyer uncertainty, when purchasing new knowledge. 5: Various difficulties associated with pricing knowledge.

Supporting this view, Norman (2001) says that internalization is often preferred when the advantages of the company are knowledge-based and when reputational effects are strong. Knowledge is as we see above more difficult to transfer across organizations. As for reputational effects it is more difficult to build a reputation merely being a supplier of a business concept or technology rather than being present in the host country.

Rugman & Verbeke (2002) extend Buckley & Casson's (1976) work to the information society's reality. They argue that unlike Buckley & Casson's idea of a one-way information flow, information between mother and subsidiary must flow both ways. Even though information exchange is internalized, even within the company the flow of information comes at a relatively high cost. They also find that the reasons for decentralization are not always grounded in formal strategic decisions.

3.7. Weaknesses of the internationalization theories

In practice, internationalization behavior does not necessarily follow the models of internationalization presented by researchers (Strandskov 1986). This groundbreaking observation is further underpinned: "Firms use different operations or activities simultaneously irrespective of what is suggested by more or less theoretical models of the behavior of firms (Strandskov 1986).

According to the internationalization literature, the process itself should be seen as divided. First there should be a theoretical approach from the internationalization theory, then a structure which integrates both the internationalization and a company's management research in the chosen area (Ibrahim, 2001). The practice is somewhat different. The process leading to internationalization may not follow the recipe of the internationalization literature, but can be comprised of bits and pieces drawn from different theoretical approaches (Buckley, 1997).

3.8. Arguments for our choice of theoretical approach

We have chosen to use Dunning's eclectic theory as an overall framework to analyze Reinertsen's internationalization process. The case Reinertsen differs from much of the textbook examples given in the internationalization theory in the way that the company almost overnight went from no involvement in the Russian market to establishing a WOS. Reinertsen did not go through many phases ending up as committed to the Russian market, but committed itself through FDI right away, and Dunning's eclectic theory is widely used to study FDI (Ahokangas, 1998)

.

In line with Buckley (1997) we see value in not sticking to one theoretical approach alone. Consequently the Network and Resource Based approaches mentioned in this chapter will also be applied more briefly to the case within the eclectic framework. The eclectic decision models are, as will appear from the name, based on several different streams of theory shedding light to different aspects of the internationalization process.

The reality facing a business in the internationalization process is complex, and therefore we argue that Dunning's perspective, taking different views into

consideration is a suitable framework for analyzing success factors in a business establishment. Furthermore, eclectic models have been formulated and used as a theory of FDI, something which is appropriate for our case study. The distinction between internal and external factors affecting FDI in Dunning's theories makes it an excellent tool for systemizing and analyzing our empirical findings. Furthermore the internalization theory suggesting that in some cases internalizing facilities and resources is a better strategy than using arms-length agreements is very appropriate for analyzing why maintaining close control is vital in Russia.

3.8.1. A summary of the eclectic theory:

Dunning shows which advantages must be present for different strategies of entry into a market by drawing on different theoretical strings within competitive advantages of a business (Ownership), within localization of a business (Location) and within a business' ability to internalize transactions to reduce risk and cost (Internalization).

The theories' application is shown in the following table. Only in the case that a company can show ownership, internalization and location advantages will it choose FDI as an entry strategy.

		Type of advantage present		
		Ownership	Internalization	Location
Entry strategies	Contracts	Yes	No	No
	Exports	Yes	Yes	No
	FDI	Yes	Yes	Yes

Table 3 Dunning's Eclectic Theory and entry strategies (Dunning, 1993)

In addition to the factors mentioned above (Read, 2007) claims that the company must also meet the following conditions in order to establish themselves abroad:

- Sufficient financial resources to establish and maintain international activities.
- Sufficient managerial resources to organize and coordinate international activities.
- Sufficient strategic vision and motivation to internationalize (corporate culture and attitude towards risk).

These conditions may be argued to be Ownership advantages according to Dunning's theory, but nevertheless we choose to list them here to clarify that specific financial resources and internationalization competences is advantageous to the internationalizing company.

3.9. Our research model

In order to arrive at a conclusion or at least extract the vital information from our empirical findings we need to develop a research model. The model below shows how we have combined and linked data and theory to each other to answer our research question. The methodological concerns cover all parts of our research and consequently all parts of this thesis.

Reinertsen AS is the mother company. Reinertsen NWR is the daughter. These are both owners of internal advantages (Ownership). There is no clear division between Reinertsen AS and Reinertsen NWR and we have treated them as a single case. Reinertsen AS took the decision to internationalize and set up Reinertsen NWR, but the process did not end once the production plant was operative. It is still ongoing and the two companies overlap each other as they continue to build the business.

Some aspects of the internationalization process such as strategy and motivation can best be understood by going to the source, Reinertsen AS. Other aspects of the internationalization process, such as their competitive advantage towards other locals and how they manage internal cultural issues can be better understood going to the daughter, Reinertsen NWR. The model shows which theories can be applied to shed light on the internal and internalization factors that affected the internationalization process of Reinertsen AS / Reinertsen NWR. Reinertsen's organization, its network and its resources played a great role which we will look into. The transaction cost theory and principal-agent will explain why they wanted to go the mile themselves.

Russia and North-West Russia is the general context in which the internationalization takes place. We have gathered data on Russian culture and business manner as well as the current situation regarding the petroleum industry. We will use theory on emerging markets and cultural differences to show how they affected the internationalization process and the way Reinertsen NWR operates.

Lastly we will recapitulate and highlight the most important findings from the analysis. The summary will be the very essence of the thesis as we have broken down the data, synthesized it via the theory and arrived at the core of the research.

This model is graphically illustrated below:

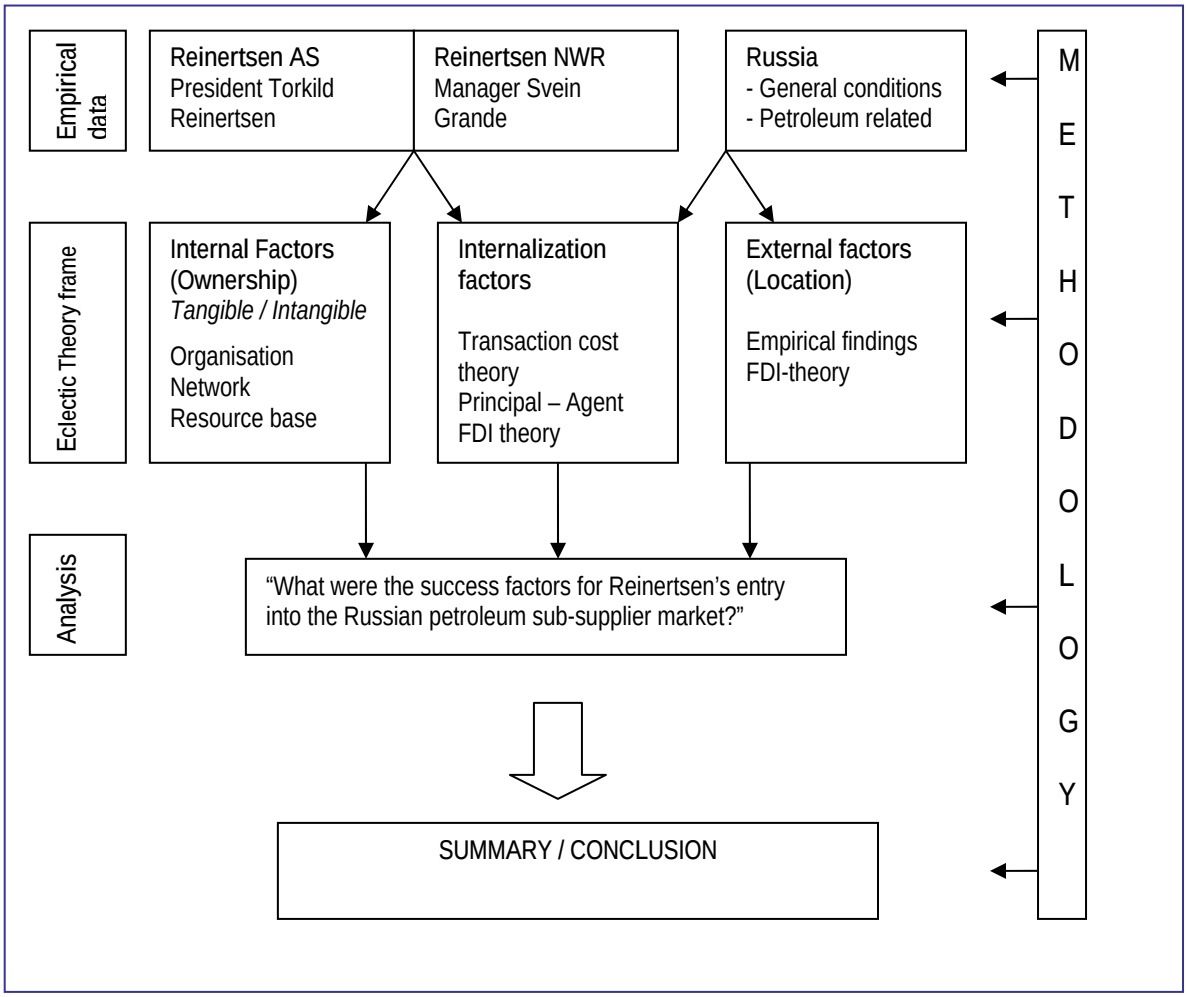


Figure 1: Our research model based on Dunning's eclectic theory

Summary
In this chapter we have discussed the theoretical framework for the internationalization process. We have learnt that there is no consensus regarding the forces that drive internationalization. We have presented 4 perspectives, each with a different view on the factors that influence and drive a company's internationalization process. Where one perspective is concerned with learning and innovation driving the process, another is preoccupied with the resource base as a basis of internationalization decisions. A third perspective sees the network as the main motivator, while the fourth perspective, our basis of analysis, draws on different theoretical streams to form an eclectic perspective.
Theory is often different from practice. That is also the case concerning internationalization processes. The eclectic theory distinguishes between ownership and location advantages and internalization aspects. As a tool to separate internal and external factors and to look into the internalization of these, this eclectic perspective on internationalization forms a solid basis of analysis.

Background

4. Russia

This chapter gives a short introduction to Russia. We have tried to explain the difference from the western countries by giving a short summary of historical events. Further a brief introduction to cultural and business aspects are given.

Quiet, quiet. Beyond the polar circle
There sleep without separating their arms
Next to a faithful friend, an inseparable friend,
A dead friend a dead friend.

—Vyacheslav Ivanov

4.1. History

The first assembled Russia rose in the 9th century when Scandinavian people united the spread villages and cities in the eastern part of Europe. The "Rhos" or Rus[12] built up Kiev to become one of the greatest cities in Europe. The Kievian Rus ruled the country until the Mongols by Batu Khan, the grandson of Genghis Khan, took control over all major cities in the 13th century. The Russian people were forced to send regular tribute to the Tatar State. In the next century nothing special happened. Because of the tributes, the Russian lived in poverty. In the 14th century Moscow became an important city. The Moscow challenged the Mongols and succeeded them in 1480. After a century with Ivan the Terrible and others as domineers, Michael Romanov was elected tsar in 1613. The Romanovs ruled Russia for three decades, with Peter the Great[13] and Katharine the Great as the most important emperors concerning the modernization of the Empire. The Russian stood against Napoleon in the 19th century a victory which gave Russia status as a leading power. By now the

[12] It is said that the word Russia came from the word Rus, which were Scandinavian people settling in Russia (Strand, 2005).
[13] Peter the Great was known for his "westernization" and crazy partying. He obtained his knowledge from western society when travelling around Europe. When visiting London he and a friend from the Netherlands borrowed a palace from the Dutch's friends. When the owners came back they were shocked. Axes were stuck in the walls and the yard had big trenches. The combination of pepper-vodka and war play had ruined the palace (Strand, 2005).

Russian empire stretched from the Siberian in the east to St. Petersburg in the west. But as the Romanovs ruled the country a growing dissatisfaction grew among the people. In 1905, when the "weak" Nicholas II[14] ruled, the soviets forced him to accept reforms.

After 12 years of internal war and political turbulence, the Winter Palace was stormed by a group of sovieters in October 1917. Vladimir Ilyich Lenin, which led the riot, could finally emerge victorious in 1920 after three more years of civil war. The beginning of the Soviet Era was a matter of fact. After Lenin's death in 1924, Stalin became the new Soviet leader. At the end of the 1930s this paranoid leader launched the Great Purges in which millions of people thought to pose a threat to the regime, were killed or exiled to remote Gulag camps. Stalin also forced a rapid industrialization of the rural country and collectivization of its agriculture. The Soviet Union was indeed rapidly industrialized, but the collectivization of the agriculture led to famines where hundreds of thousands starved to death. After a devastating WWII[15], and heroic achievements by the Russian people, Russia emerged considerably stronger than before the war. The Soviet Union was at its start as a superpower.

After Stalin's death in 1953 Nikita Khrushchev took the leadership. With Khrushchev political controls were to some degree relaxed, and cultural life experienced a brief period of revival. But in 1964 he was ousted and Leonid Brezhnev gradually became the new leader. The country entered a decade-long period of stagnation, its rigid economy slowly deteriorating and its political climate becoming increasingly pessimistic.

[14] He was seen as weak by the people. The word on the street said that his wife was "the man" in the marriage and that she beat him from time to time (Strand, 2005).
[15] The number of fallen Russian soldiers and civilians is estimated to 20 millions (Strand, 2005).

4.2. 1985-1991 Mikhail Sergeyevich Gorbachev

"…a great deal is still to be done before stability develops into national accord"
- Mikhail Sergeyevich Gorbachev

After three years of rule by Yuri Andropov, head of the KGB, and Konstantin Chernenko, the last leader of the Soviet Union took his seat in 1985. Mikhail Gorbachev saw the need for a structural change in the Soviet Union. He saw that the economic performance was lacking behind the rest of the world. In short, he saw the inefficiency of a wasteful system failing to utilize the Soviet Unions abundant resources to achieve economic growth. He described the Soviet Union in his book Perestroika, as a machine with loose transmission belts (Gorbachev, 1987). To lead the state back on track he launched a new platform which was founded on glasnost (openness) and perestroika (restructuring). He wanted to loosen up on social control opening some room for new ideas, relax control of the economy and generally allow for a little fresh air. This openness was certainly something new, but he would soon learn that changing this system inherited from Stalin would prove difficult.

Restructuring began in earnest, with a vigorous housecleaning of the bureaucracy and a significant investigation into corruption. For the first time since Lenin private businesses were allowed and private shops, manufacturers and restaurants became part of the Soviet scene. In addition to improve the Soviet economy Gorbachev saw it as an important task to reverse the alienation of the people towards the socialist state. He wanted the people to become interested in and feel a responsibility for its development (Gorbachev, 1987). The censorship of the press was loosened, thousands of political prisoners were freed and the social sciences were allowed to explore and publish on many subjects previously off limits.

What Gorbachev did not foresee was the enormous upheaval that would come partly as a result of his perestroika. Gorbachev never had any plans to abolish Communism. He wanted to preserve it with a more human dimension. Once he had opened Pandora's Box of reform however, there was no turning back. The wind of change, made immortal by the German band The Scorpions, swept across the Soviet Union and its neighbors, changing forever the lives of millions and millions.

4.3. 1991-1999 Boris Nikolayevich Yeltsin

Our giant nation balances on a knife's edge. And no one knows what will come to pass with it tomorrow.

-Boris Nikolayevich Yeltsin

At the very end of Gorbachev's rule, the Russian ship was in a dismay condition. The Norwegian journalist Steinfeld (1991) describes in his eye-witness report from the fall of 1991: Business is of a speculative and crude kind, buying cheap in the West and selling expensively at home. Or the opposite, creating little value. Little goods are produced domestically and 5 million tons of grain must be imported each month due to failing crops or no incentives to harvest crops. Inflation eats up people's wages.

Boris Yeltsin came to power in a popular revolution. In June 1991 he became the first Russian president to be elected democratically. Bayer (2007) says that Yeltsin gave Russia its first breath of freedom, but not true democracy. Yeltsin was himself a creation of the Soviet system, claiming that he genuinely believed in the party principles when joining the party at the age of 30 (Yeltsin, 2000). His party background put him in a position to seize power, but also haunted him: Yeltsin did not fully realize that Russia could not be liberalized or democratized as long as the Soviet-era bureaucrats remained entrenched in position. He would soon feel that on his body.

Yeltsin was immensely popular in the beginning of his reign. Before he took office he had even warded off a coup d'etat against Gorbachev almost single handedly. He was seen as a man of action. When he surprisingly left office on New Year's Eve of 1999 appointing Putin as his successor, his popularity rating had sunken to two percent (CNN, 2002). The reasons for this are many. His clear cut will to make a difference[16] gave the common Russian hope, but disappointed her as his economic Shock Therapy[17] and subsequent inability to manage the Russian economy sent millions of

[16] Being raised in a peasant hut he knew very well the misery that befell much of the Soviet Union. On a trip to USA he visited a super market. He was shocked after seeing the abundance of meat and vegetables available to an ordinary American. After seeing this he was silent for hours, before he uttered the words: "What have they done to our people." (Berger, 2007)

[17]THE SHOCK THERAPY MODEL got its name from Poland's stabilization and liberalization program, initiated on January 1, 1990. The fundamental basis of the shock therapy model was the need

people into poverty. The sudden liberalization and privatization that were part of Shock Therapy enabled government connected opportunists to seize assets at a bargain price. This gave rise to the commonly detested and super-rich Oligarchs given an international face by Chelsea owner and mega-yacht enthusiast Roman Abramovich. Russia started on its way from egalitarianism towards today's society with a vast gap between the rich and the poor. This was not all Yeltsin's fault; much of what happened was inherited from Gorbachev's perestroika (Bayer, 2007). People in position were of course reluctant to give up their advantages. Many adapted smoothly to the new reality, stealing whatever they could on the way from communism to one of the world's most capitalistic systems.

Boris Yeltsin was a disputed leader. Undoubtedly he had taken on a backbreaking task even for a young politician of excellent health. He however had a heart condition, suffered from periodical depressions and was an alcoholic with a bleeding ulcer. He had to start from scratch leaning on the only experienced people around, former members of a party he had just destroyed to rebuild Russia (Berger, 2007). Throughout his presidency he fought the Russian parliament, the Duma. In 1993 he even used military force letting tanks fire on the parliament, The White House, to ward off a coup attempt from rebellious parliament members.

What had started out so optimistically had gone sour. At the time of Yeltsin's departure from politics Russia was in a state of moral decay. A bloody war in Chechnya raged. Semi-criminals and criminals ran the Russian economy. Many people were worse off than during communism and a lacking legislative structure provided little basis to build a democracy. Yeltsin recognized that he in many aspects had failed (Berger, 2007). In his resignation speech he told the Russian people: "I ask forgiveness for not justifying some hopes of those people who believed that at one stroke, in one spurt, we could leap from the grey, stagnant totalitarian past into the light, rich, civilized future."

to establish economic, institutional, political, and ideological structures before any attempt to liberalize. Without this minimum foundation, radical reforms would have inhibited the transition to a competitive market capitalist system. (Schlack 1996:617).

4.4. Inside Putin's Russia

"Whoever does not miss the Soviet Union has no heart.
Whoever wants it back has no brains."
-Vladimir Putin

Putin's witticism on sentimentality versus reality clearly has s point. Russia has indeed undergone a transformation under Vladimir Putin. For many the future became rich and light. And civilization can, as found Peter the Great[18], always be bought. Now, doubt remains as to whether driving a Bentley makes you more civilized, but many Russians seem to think so. The streets of Moscow are flooded with luxury cars. International luxury brands consider the city one of their most important markets and a rapidly growing middle class[19] takes part in the most outstanding that western civilization has to offer: Shopping.

4.4.1. 2000-2008 Vladimir Vladimirovich Putin

Putin was elected President of the Russian Federation on March 26, 2000. He was 48 years old. His career started in 1975 as a KGB-officer in Leningrad (now St. Petersburg), where the law graduate stayed until he was sent to Dresden in 1985. In 1992 he left KGB to pursue a career as a bureaucrat and politician in St. Petersburg. In 1996 he came to Moscow to climb the Kremlin career ladder at remarkable pace, ultimately ending at the very top (Reitschuster, 2004).

4.4.2. Power structures

The Siloviki

The term "siloviki" is often used to describe today's top level bureaucrats and decision makers. Petrov (2005) defines "siloviki" (power men) as officers of military and law enforcement agencies. Renz (2006) says that today the term indicates a more precise definition, describing politicians with a force-structure background[20] coming

[18] When Peter the Great built St. Petersburg he commissioned the best of Italian and French architects to create a piece of European civilization in Russia.
[19] This group has grown from 8 million in 2000 to 55 million in 2006 (Bush, 2006).
[20] The distinction between police, military and security forces is not clear cut in Russia. 10 different forces use uniform and have police authority. These are: The Ministry of Defence, the Interior Ministry (MVD), the Ministry for Emergency Situations (MChS), the Justice Ministry (Federal Prison Service—FSIN), the Federal

to power under Putin. The "siloviki" is much more visible in the top government structures today than during Communism, and many attribute this to Putin, a former KGB officer, being a "silovik" himself. This is interpreted as a sign of a more authoritarian state under Putin, and the fact that the very power structures headed by the "siloviki" are perceived as highly corrupt by the Russian public (Galeotti, 2006) adds further to the negative connotations of the term. Renz (2006) does not agree that Putin is deliberately pursuing a more authoritarian state. She attributes the increased number of "siloviki" in government and upper bureaucratic levels to the fact that Putin appointed people he knew and trusted. She warns against catch-all phrases to analyze Russian politics.

The Regional Administrations

"Foreign investors should carefully consider the business practices in their specific region"
- Ernst & Young

Russia currently consists of 88"federal subjects" which are divided into Oblasts, Republics, Krais, or Autonomous Okrugs. The regional legislation and enforcement practices may differ between the different federal subjects. Ernst and Young further states that companies doing business in Russia should be aware that the regional administrations have substantial influence on the way business is conducted in the regions; both through local legislation and their formal and informal influence over agents responsible for enforcement of federal legislation.

Knowing politics and politicians is in other words important when doing business in Russia. During Yeltsin's era, the governors got a great deal of power and often interfered in business as well as politics. Being a foreign businessman in Russia without knowing the governor, could prove an impossible task. Some regions were worse than others, but still most governors were known as "small kings" in their republics, oblast or Okrugs (Hønneland at. al, 2006). One example is the governor of Kalmykia which had a "representation apartment" in Moscow. A journalist got access

Security Service (FSB), the Foreign Intelligence Service (SVR), the Federal Anti-Drugs Service (FSN), the Federal Guards Service (FSO), the Federal Courier Service (GFS), and the Agency for Special Programmes under the President (GUSP) (Renz, 2006).

to this palace. The most impressive "scene" or floors was the one with a glass floor which made it possible to look down on the lower level where there was a big pool with flowers and naked ladies swimming as decoration for the governor (Hønneland & Jørgensen, 2006).

Soon after Putin became president, he recentralized much of the power which the governors gained during the 90's. Today the governors are more or less nominated by the president himself (Hønneland & Jørgensen, 2006). Whether this has made it more or less important to have your foreign business in Russia blessed by the governor, is an open question. Turovsky (2007) says that the governor's ability to receive funding or preferential treatment from the Kremlin has not been increased under the new system, the importance of maintaining Kremlin loyalty has however been strengthened. A region's wealth increases its central lobbying ability, something which might make the Murmansk governor more powerful as interest in the area's petroleum resources grows.

Organized crime and corruption

The presence of organized crime in Russia is a major challenge for the authorities. A culture of corruption, dating hundreds of years back[21] was only strengthened during the Soviet time. Since a legitimate market did not exist favors and goods were traded on a black market. The butcher gave meat to the tailor in return of pants. Those who worked in the service sector did not have any goods to trade, but would accept money in exchange of services. For instance an overworked medical doctor would not treat patients unless they paid him under the table. Or a policeman would pocket a bribe instead of writing a fine (Meier, 2003; Galeotti, 2006). This enabled them to take part in the black market.

This culture of "entrepreneurship" has survived the Soviet era. During the 1990s the situation was exceptionally severe, as military officers used military facilities and equipment exempt from police controls, to store and distribute contraband as a service to criminal groupings. As their skills grew they became integrated criminal groups

[21] Corruption in Russia is not a new invention. Already in early the days of the Romanov Empire were public servicemen encouraged to take bribes. A serviceman such as a tax collector in the district would get no pay check from the authorities. He was however entitled to receive gifts from his subordinates (Meier, 2003).

themselves, running among others drug operations from Afghanistan to Moscow. Many police officers moonlighted as body guards, drivers and doormen, and provided a shelter or roof, "krysha", for criminal activities (Galeotti, 2006). On a higher level, Galeotti (2006) notes that the police's own internal affairs division investigating corrupt police have often simply become the "krysha's krysha", blackmailing corrupt police instead of prosecuting them.

Under Putin the situation appears less dramatic. The criminal elements have become more discrete. The gang wars from the 1990's are past. The streets are safer for innocent bystanders, but the Russian Mafiya and its ties to the police and the military are very much present (Galeotti, 2006). President Putin has himself admitted that "the law enforcement bodies, unfortunately, are still afflicted with corruption and inefficiency, from the lowest level to the highest where we are talking about [bribes of] hundreds, tens of, thousands, perhaps millions of dollars"(Myers, 2005). In an interview with the New York Times a building contractor says he pays 5-10% of contract value in bribes. Otherwise he does not get any contracts. He adds: "It used to be called bribery. Now it's just called business" Myers (2005). In Russia today bribery touches just about every aspect of life. The authors have themselves several times been stopped by police in Moscow, fishing for bribes over purportedly invalid immigration documents. A Muscovite we know opened up a beauty parlor late in 2006. She wanted to move a sprinkler pipe that hung low in the middle of a room's working space. The fire deputy would only approve moving the pipe to the wall, if he was bribed $ 1200, many times his monthly salary.

The Russian NGO Indem Foundation monitors corruption in Russia. In a survey of 1000 business people and 3000 civilians they found that bribery had multiplied tenfold from 2001 to 2005, reaching a volume of US$ 316 billion[22]. Health, fire and safety inspectors, tax police and law enforcement agencies were the most egregious bribe-takers (Ostrovsky, 2005). Transparency International has monitored corruption world wide since 1995. They rank Russia on a 127th place of 163 countries on their 2006 Corruptions Perceptions Index with a score of 2.5[23]. This places Russia as

[22] That is 2.5 times the annual budget revenues.
[23] The CPI index relates to perceptions of the degree of corruption as seen by business people and country analysts. The index ranges from 10 (highly clean) to 0 (highly corrupt).

slightly cleaner than Rwanda, but as more corrupt than Honduras (Transparency International, 2006).

The reasons for corruption's growth under Putin are several. One issue is the salary of soldiers, policemen and other public servants. The average Russian earns $330 a month (Bush, 2006). Many public servants earn less than that and despite subsidized utilities, telephone and public transportation it is hard to get by on so little. Putin has not made room in the national budget to increase these group's salaries (Galeotti, 2006). Furthermore Putin's crackdowns on corruption give the impression that he values loyalty more than honesty[24]. He maintains good working relations with many of the most corrupt figures in Russia and those who have fallen to corruption investigations have tended to be associated with his political rivals. To a considerable extent corruption allegations have become part of the toolkit to demote, displace and promote in order to create the police and military structures that is wanted (Petrov, 2005).

4.4.3. Freedom of speech

As the Soviet era ended and Gorbachev's Glasnost flowered, control over the media faded. The period from 1990-1992 was a golden age for Russian media. It was a time of privatization (often by occupation) of media facilities, proliferation of media outlets and a change in attitude and norm towards contemporary Western journalism (Zassoursky, 2005). At the same time media continued to be state financed, and suffered from no economic pressure (Krasnoboka, 2007). After that short period the economic downturn and political turmoil after the failed coup against Yeltsin presented the media with more meager conditions. The president consolidated power into his office and the oligarchs gradually seized control over the media turning most of the media houses into mouthpieces for different political groupings. The oligarchs gradually narrowed editorial freedom and many television shows changed into political slandering campaigns (Jack, 2004). As Putin seized power from the oligarchs the media was gradually monopolized again.

[24] Andrew Jack (2004) emphasizes how much Putin values loyalty. He gives a crown example of Putin's own loyalty, choosing to go down together with the overthrown Mayor of St. Petersburg Anatoliy Sobchak. Putin also is known to reward those who have been loyal to him, like ex KGB men and former St. Petersburg associates.

Today the national media is once again largely government controlled (Krasnoboka, 2007). The two largest TV channels, Pervii Kanal and Rossiya are both state owned. The third on the list, NTV is owned by Gazprom. The state-owned gas giant has its own media arm, controlling several national newspapers, a publishing house, TV and radio stations with a total turnover of around $600 million (Ballin, 2006). The deal for Gazprom to buy popular large-circulation newspaper Komsomolskaya Pravda in early 2007 was seen as yet another move to strengthen state control over important media before the upcoming elections (Ballin, 2006). Another sign of prepping media for the elections was the RUR 2,7 billion ($100 million) allocated to the state bulletin Rossijskaya Gazeta in April this year. A proposal from a member of parliament to give 3 billion rubles in subsidies to print media in general, was cleverly manipulated to favor the state information bulletin now turned into a propaganda publication (BBC, 2007).

But reward isn't the only policy followed to fight negative coverage. Fifty to sixty attacks on journalists were carried out last year and 11 have been killed over the last 5 years, making Russia one of the most dangerous countries to be a journalist in. The US based Committee to Protect Journalists recently published a report on the Russian media. It ranked Russia as the country with the third worst conditions for a free press. A new law that defines extremism as "the public slander towards figures fulfilling state duties" was one of the reasons for this bottom placement. (Krainova, 2007).

On the bright side, journalists in regional newspapers have shown that there is still reason for hope for the free press. Moscow Times wrote on November 21, 2006 that the editorial staff of regional newspapers Berdsky Kuryer and Gorod KHM had walked out after their owners tried to remove articles about local corruption and abuse of power. The journalists then formed their own independent newspaper (Eismont & Hewitt, 2006).

4.4.4. Mentality: An unsettled past

And fate made everybody equal
Outside the limits of the law
Son of a kulak or Red commander
Son of a priest or commissar . . .
Here classes were all equalized,
All men were brothers, camp mates all,
Branded as traitors every one . . .
-Alexander Tvardovsky

Applebaum (2003) writes in her book on the Soviet era Gulag system[25] that a challenge in Russia today is the lack of confrontation with the past. She attributes it to the fact that too many of those who committed crimes and misdeeds during the Soviet era still are at large today. When the Cold War ended there was no systematic shift in the power elite of Russia. Many of those in position today hold their power as a result of connections and positions they gained during Communism. It is not in their interest to confront the past.

As a result Russia is a country with large painful holes in its history. For instance one shall not stay long in Russia before meeting someone who can tell a relative's story from communist suppression. In school text books however the topic is curiously absent. It is always painful to confront the past, but a cleansing process, a catharsis, is needed when circumstances change so dramatically. Instead of reflecting thoroughly on the past, Russia jumped on the very next train. The reluctance to confront the past will very likely have consequences for the forming of a Russian citizenry. The national suppression of history shows itself in a short-sighted mentality and also in

[25] Gulag was the Soviet Union's prison camp system. It is estimated that throughout the XX years it was operative, more than 20 million prisoners passed through it and that millions died in or as a result of a stay in the GULAG system. Common criminals, juvenile delinquent, political prisoners and war prisoners could end up together in this massive system of oppression. Many of them never found out why they were arrested before they died (Applebaum, 2003).

more extreme outcomes such as the growing racism[26] and nationalism[27] in a country with little tradition for criticism, not to speak of self-criticism.

4.4.5. Russian Foreign Policy

Understanding Russia has never been easy from a western perspective. We may still see references to Winston Churchill's witticism about Russia as "a riddle wrapped in a mystery inside an enigma" and to Fyodor Tyutchev's classical poetry: "With the mind alone Russia cannot be understood. No ordinary yardstick spans her greatness. She stands alone, unique, in Russia one can only believe".

As Russia in a short time span, has gone from an indebted nation with a chaotic almost anarchic structure to a wealthy energy superpower naturally her ambitions as a global actor have grown. Energy plays a pivotal part in Russia's foreign policy, something that became clear when Russia assumed the presidency of the G8, putting Russia back into the loop by wielding the energy weapon (Yergin, 2005).

4.4.6. Important rules and regulations

Laws of Importance

The Foreign Direct Investment Law which was adopted in 1999 is one of the most important laws for a foreign company. The law gives certain guarantees to foreign companies. For example it guarantees that Russian regulations shall not create a legal climate regarding investment activities and use of profits that is less favorable for foreign investors than for Russian investors (Bagautdinov, 2007).

The law concerning Product Sharing Agreements (PSA) was adopted in 1995. Where PSA's are established to develop recourses, 70 % of the supplies in the project should come from local companies. The PSA participants shall also maximize the use of Russian workforce. This means that qualified Russian companies should be given priority. The PSA legislation has important consequences for foreign companies

[26] According to Russian police figures, crime against foreigners have risen 84% from 2000-2005 (Zubchenko, 2006). Several judicial cases have shown juries acquitting defendants of committing murder on racial grounds. Thus the Russian Federation Public Chamber has proposed that juries be barred from cases involving charges of ethnic hatred (Kozlova, 2006).

[27] The Russian Orthodox Church adopted in May 2006 a Declaration on Human Rights and Dignity. The document declares that values like faith, morality, sacred things and the Fatherland are no less important than human rights. The declaration also decried efforts by foreign human rights organizations (Samarina, 2006).

which seek to become suppliers to Russian Oil and gas industry. Given requirement on local content, the companies will be better off if established in Russia. Companies registered in Russia and with at least 50% Russian-owned capital and are considered to be "local". Company factors which the region yields from will all be in favor for the valuation of the company as a "local" (Fadeev, 2007; Andvik, 2007; Ernst & Young, 2006).

Taxes

The new Russian Tax Code came into effect on January 1, 2005 and the old Tax System Law has become fully phased out. The Russian tax, which is listed and regulated by the Russian Tax Code, includes several federal taxes and levies, regional taxes and local taxes (Ernst & Young, 2006). Compared with other economies, Russia still has too many taxes, which are often collected at short intervals. The authorities tend to modify the rules according to the budget situation. So far, all attempts to streamline tax laws and types of taxes have failed. The instability of the tax system is a deterrent to both foreign investors and development of business in Russia.

Banking

The Banking sector has been at the centre of attention in Russia the latest years. In the crisis of 1998, the whole banking system nearly collapsed. In 2004 the Russian Central Bank and Russian Government launched a major reform initiative that could fundamentally change the Russian banking sector and its structure over the next years. By monitoring the banking system and induce stricter control, the banking system will grow more stable (World Bank, 2004).

Dnb Nor is the only Norwegian bank established in Murmansk. Since 1999 it has been located there through a representation office. In 2005 Dnb bought the Murmansk based bank Monchebank. "With the purchase of Monchebank, we position ourselves in an area which will face an exiting future when the oil and gas development in the region starts" said director Svein Aaser in Dnb Nor (Fadnes, 2005).

Property Rights

Security of property is still one of the most urgent problems the Russian economy is struggling with according to the World Bank (2004). There are many examples of

mafia-like business methods and corrupt decision makers operating in the "protection" business. For small firms this might pose a problem, as transaction costs rise, either through fighting the extortionists or through paying them off (Gonzales-Vega, 2006). The authors have heard multiple insider accounts from foreign business men trying to establish themselves in Russia. Unfortunately very few are willing to come forth, as it will diminish their chances of continuing business should their criticisms be made public.

One example came from a mid-level manager in an international tire producer. When they set up production outside Moscow it did not last long before a group of Russian business men demanded a share of their income. The situation became difficult after a while, and the tire-producer decided to withdraw from Russia. As they prepared to pack and transport their equipment, several armed men showed up and demanded the keys to the facilities. The tire-producer had to surrender its entire production line in the hands of these bandits. Clearly, in the cases this happens to a small firm, it is devastating.

On a higher level, the Russian state is in the middle of a campaign to reclaim strategically defined assets, disguised as an effort to save the environment. Foreign and privately owned Russian companies have seen attractive mineral and petroleum extraction rights vanish before their eyes (Moscow Times, 2007, Economist, 2007, Ballin, 2006). From a Russian nationalistic perspective this makes perfect sense, but it is thought to be damaging to the performance of the petroleum and minerals sectors (Economist, 2007).

If we look to prior experiences, Yeltsin's loans for shares program privatized property rights in a prompt, but unfair manner. Kay (2007) compares in an article in Financial Times the now bankrupt, but once booming Argentinean economy with Russia today. He claims that the top-down allocation of property rights leads to a polarization between the rich and favored and those who are poor and see no other hope than trying to upset the property rights allocation. That is a dangerous sign for the future.

Customs/ Tariffs

The average tariff in Russia has increased between 2001 and 2003 from about 11.5% to between 13% and 14.5%. This places Russia's tariffs at a level slightly higher than other middle-income countries and considerably higher than the OECD countries. The food sector and light industry are the aggregate sectors with the highest tariff rates—both have tariff rates in excess of twenty percent on a trade-weighted basis. At the two digit level, motor vehicles, footwear, leather products and sugar are among the most highly protected (Tarr et al., 2005).

Like most countries in a position to do so, Russia to a large degree uses import duty to create a protectionist barrier for domestic production. It also uses import duty and regular import bans as foreign policy tools. This was the case when wine, mineral water, fruit and vegetables from Georgia was banned. The stated reason was quality concerns, but the scarcely hidden message is for Georgia to stay in line with Russia and seize aspirations towards becoming a NATO-member (The Spectator, 2006). Similar occurrences have happened to imports of Norwegian salmon, Polish meat and Belarusian dairy products in efforts from Russia pressure these countries.

The Russian customs system is, like any other regulatory regime in Russia, extremely bureaucratic. It puts great demands on exporters to Russia to fill out documentation correctly and adhere to strict regulations. Grande (2007) says that Norwegian companies need training in dealing with the Russian customs system.

Registration of Business in Russia

"The entire registration process is rather time consuming."

-Ernst & Young

The registration process for a company doing business in Russia is a complex operation. The registration authority takes care of state registration and registration for tax purposes, a process which involves several documents for the company to produce. The time for registration takes normally three to five weeks, but can take longer time in certain circumstances. If a document is considered unsatisfactory, then the document needs to be re-filed, a situation which stops the whole process (Ernst & Young, 2006).

4.4.7. The Russian Economy

In the final years of the Soviet Union, the economy was so dysfunctional that continuing in its current condition was impossible. The five year plans which were set out by the Gosplan[28] had focused more on production quotas than creating value and meeting demand. The system led to chronic shortages of supply and drove down quality throughout the Soviet economy (Houlleberghs & Zaslavsky, 2004).

After failed attempts by Gorbachev to restructure the economy, Yeltsin had a well conceived strategy for how to reform when he came into power in 1991. "The young advisors" such as Yegor Gaidar, Anatoliy Chubais and Viktor Chernomyrdin started of by liberalizing prices and privatizing parts of the economy. But without any private economic experience from the Soviet times, there were few norms to guide commercial transactions and such. The economy during the 1990's is best described as a "roller coaster economy"[29], until it found itself in a devastating financial crisis in 1998. With a mounting debt burden the economy went into a situation where devaluation and default ended the hopes for Russia for a quick transition to a functioning capitalist system (Houlleberghs & Zaslavsky, 2004).

The Russian economy, since the 1998 crisis, has been impressive. The devaluation that followed as a result of the crisis, and the import restrictions and restructuring of the cash flow situation made national industry get somewhat back on their feet again. Industrial production growth grew from 5.2% in 1998 to 11% in 1999. The inflation was stable and the rise in consumer prices slowed (Høiby, 2004). Between 1998 and 2005, the Russian GDP expanded by 48%, while real income of the population grew by 46% (World Bank, 2006). Last year, 2006, was the eight year in a row with growth, landing at 6.7% up from 2005. In addition to the high energy prices and the cheap ruble, the rise in foreign direct investment also played an important role (CIA Factbook, 2007). Today poverty has declined and the middle class has grown (World Bank, 2006). Important reforms in areas such as removal of administrative barriers, taxation and budgetary institutions have been important factors.

[28] Gosplan was the all-powerful state economic planning agency (Houlleberghs & Zaslavsky, 2005).
[29] The economic figures such as GDP went up and down from year to year. There was no stability.

The huge governmental profits gained from the increased energy prices have mainly been used to pay of foreign debt. This has improved the economic situation for the state budget. A great part of the payment inflows from petroleum has also been put into a "Stabilization Fund". This has contributed to keep inflation at relatively moderate levels. In January 2005, Standard and Poor's joined Fitch and Moody's in awarding Russia an investment grade rating (World Bank, 2007).

4.4.8. FDI in Russia

"To fully realize its investment potential, given its natural resources, large domestic market and relatively low wages, Russia needs to cut the restrictions facing foreign investors looking to invest in Russian firms"

-OECD, 2006

The OECD Investment Policy Review of Russia from 2006 is a survey of Russia's approach to international investment agreements. It concludes that despite the growth of FDI, Russia needs more international investments to support the country's economic development and diversification. Since 2003 investment has reached historical levels in 2005 and 2006.

The rising flow of investment into Russia is an important vote of confidence in the country's outlook (Moore, 2006), but still the FDI level is low compared to other countries (OECD, 2006). In 2005 it accounted for less than 3% of GDP while in Poland it was nearly 5%. Of the total of FDI in Russia today, much of it is said to come from Russian-owned offshore assets being reinvested in the country. In 2005 28% of the FDI came from Cyprus[30]. And even tough other sectors such as manufacturing has benefited from rising inflows, still much of the total has inevitably been directed towards the oil and gas industry (Moore, 2006).

Further the OECD report concludes that insufficient policy transparency remains a serious obstacle to investment. Administrative bureaucracy and transparency in areas such as land and property registration and work permits limit opportunities and encourage corruption. Also the forthcoming laws on "strategic sectors" and on subsoil

[30] Cyprus is an attractive offshore zone. It has been widely used by the Russian oligarchs and other newly rich people in Russia to hide money taken abroad during the 90's and later (Lowtax.net, 2007).

will be a test of the government's commitment to transparency, concludes OECD (2006). The Review recommends that the future strategic sector law narrowly defines the sectors concerned, limits the scope of restrictions to foreign control over domestic companies based on a strict interpretation of essential security interests.

4.4.9. The Economy in Murmansk Oblast

Murmansk oblast is one of the regional districts where the government will increase their efforts. The region is full of hope, especially when it comes to oil and gas in the future. Today we also see a growth in both domestic and foreign investment in the city of Murmansk, and the expectations are high for the North Westernmost region in the country. Some even expect the region to have the same average income and standard of living as in Norway in a few years, if the Shtokman development comes (Haukanes, 2007). But let us not forget that Murmansk has other industries as well, such as fisheries, mining and forestry. In addition to the resource based industry there is also mechanical yards and factories, engineering companies and service and supplier industry connected with the sectors (Høiby, 2004). In the future the tourism industry is also expected to gain a boost (Barentsobserver, 2007).

A heritage from Soviet times, the economy in region is still very dependant on the larger "town-forming" companies (Høiby, 2004). These are big companies which run most of the industry such as for example fishery. These companies are to a large extent self sufficient. They have their own supplier chain which supplies the main company with the needed products and services. For other domestic or foreign companies it may be difficult to sell or serve these companies if they do not offer new technology, concepts or equipment that will raise the efficiency of their activities (Høiby, 2004).

There are several features which differ between the major cities such as St. Petersburg and Moscow to the more isolated regions such as Murmansk. The Consumer market is one example. Even tough the inhabitants of the northern regions have had a raise in their consumption the latest years; they are still far away from reaching the level in the major cities. The average salary for a worker in Murmansk was about RUR 6000 pr. month in 2004. In St. Petersburg it was RUR 9000 and in Moscow it was RUR

12000. Still, it has to be taken into consideration that housing and other goods and services are generally lower priced than in the major cities in Russia (Høiby, 2004).

4.4.10. FDI in the Murmansk region

New laws on Special Economic Zones (SEZ) and Concessions can have a positive impact on helping the regions attract more foreign investment. Regions may exploit their potential comparative advantages better if they are implemented in a non-discriminatory and transparent manner, with a minimum of market distortion (OECD, 2006). If Russia should be able to attract higher levels of FDI, also regions outside Leningrad and Moscow have to become more attractive for FDI (Kuboniwa, 2000).

The Murmansk Region has a middle position among Russian regions when it comes to investment priorities. It has a rank of 3B1, which says that it has lowered potential but not high risk. The regional government continuously works with strategies with aims of increasing the efficiency and competitive ability of the economy. In 2005, investments were estimated to RUR 17,48 billion. Norwegian investment was fourth highest after countries such as Belize, Virgin Island and Cyprus (Barentsnova, 2006).

Summary
The Russian history is different from "the western" in many ways. Russia has been under Asian control and took a communistic turn in the beginning of the 20th century. As Russia opened its economy and pursued a democratic path in the beginning of the 90's they experienced a dramatic and unstable decade with economical crises and privatization. As Putin became the leader in the year 2000, he started to nationalize much of the lost state properties. One of his main targets was a growth in the GDP and stable inflation. Even though he has succeeded in gaining much of the lost property back and an economical growth, the country is still criticized for lack of democracy and openness in the press. They also still face corruption and an unstable business climate. But progression is made, and Russia is today gaining both WTO membership and higher investment rankings.

5. The Petroleum Industry

In this chapter we highlight the global energy situation and the focus on the new energy region, the High North. We also give a short brief in the Norwegian and the Russian petroleum sectors and the energy cooperation between the countries.

5.1. Geopolitics

"World energy consumption is projected to increase by 71 percent from 2003 to 2030. Fossil fuels continue to supply much of the energy used worldwide, and oil remains the dominant energy source."

-IEA, 2006

5.1.1. The increasing demand for energy

The global economy has become more global than ever. Non-OECD countries such as China and India have experienced an exploding economic growth (IMF, 2007). Because of the coherence between economic growth and energy consumption, the world is facing a historical growth in the energy demand. A major part of the growth comes from non-OECD countries (IEA, 2006), a growth that will continue over the next decades.

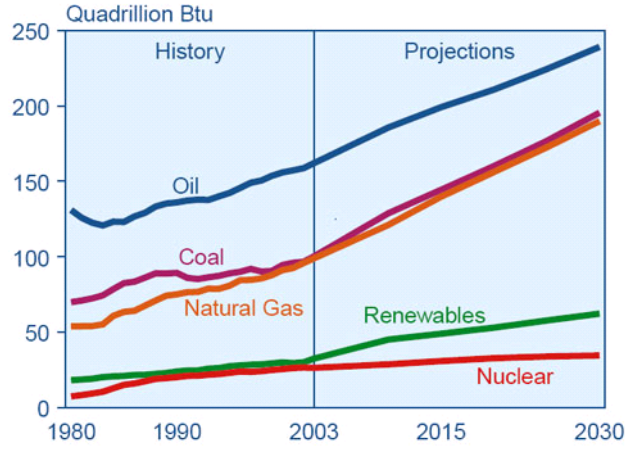


Figure 7: World marketed Energy Use by Energy Type (IEA, 2006)

International Energy Agency predicts an increase in world energy consumption of 2 % a year until 2030, with a total of 71 % from 2003 to 2030. Fossil fuels will continue to supply much of the energy used worldwide, and oil will remain the dominant energy source.

The consumption of oil is expected to rise from 84 million barrels per day in 2005[31] to 118 barrels a day in 2030. Natural gas and coal is expected to have an even more increasing consumption. They will become more popular among energy consumers, much due to the limitation of oil supplies. Renewables and nuclear energy are expected to increase in production, but the output will not be large enough to reduce the dependency on fossil energy sources (IEA, 2006).

5.1.2. The Oil price

Figure 8: Yearly average oil price (IEA, 2007)

As the demand for energy increases more than the production, prices take an upward turn. In 1994 the price of one barrel[32] of oil was US $15,53 [33]. Today it is at US $62,99 [34]. IEA says that in the future the oil price may stay at reference, which will be at $ 50-60. Or - it may fall to 35-40 dollar. Or – it might become even higher reaching $ 65-100. Finally, IEA predicts that we are more likely to see a price above the reference than lower.

With high energy prices, less profitable fields become more interesting. Regions and fields which were seen as to costly to explore and develop attract investment. New technology and increased experience with complex fields make this possible.

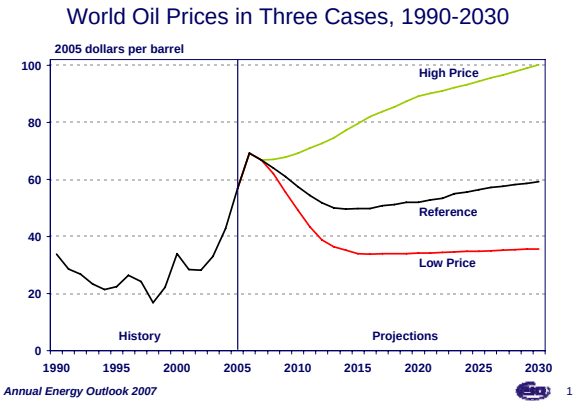


Figure 10: World oil price in 3 cases up to 2030 (IEA, 2006)

[31] Of which the US consumed 20,8 million barrels (25% of total) a day. The US motor Gasoline consumption alone was 9,16 million barrels (EIA, 2007), 3 times the production in Norway (2,97 million barrels in 2005) (BP, 2006).
[32] 1 barrel = 42 gallons or 159 litre
[33] The price is for one OPEC reference basket (ORB)
[34] 4th of May 2007

5.1.3. Energy Security

"Safety and certainty in oil lie in diversity and diversity alone"
– Winston Churchill

To be able to meet high energy prices and also to prevent high prices, diversity in the type and origin of the energy is important. Kalicki and Goldwyn point out that energy at stable prices is a fundamental requirement for the stability and success of an economy (Kalicki & Goldwyn, 2005). Daniel Yergin stresses that diversifying the sources of supply lessens the impact of any particular disruption and provides opportunity for compensating supplies (Kalicki & Goldwyn, 2005). This is close to Churchill's maxim: "Diversification of supply is one of the main guarantors for security and, indeed, is the starting point for energy security."

In 2003 OECD countries consumed over 55 percent of world energy production (IEA, 2006). The oil consumption in the US made out 25 percent of the world's consumption. Of the consumption 60 percent was imported. Also in the EU the import rates are high. In 2030 it is expected that 90 percent of the oil consumption have to be covered by import. The import of gas is estimated to be 80 percent of which 60 percent will come from Russia (Euractiv, 2005). To be able to meet future energy requirements, regions such as the US and the EU has to look to new areas of supply. Large emerging economies such as China and India will be particularly dependent upon stable sources of supply as their economies evolve further.

5.2. The High North

5.2.1. The Arctic

The IEA and the US Geological Survey estimate that 25 percent of the worlds remaining worldwide undiscovered hydrocarbon recourses are located in the Arctic. The Arctic area covers the Circumpolar Area and can be divided into several smaller areas such as Northern Canada, the east coast of Greenland, the Barents Sea, the Sea of Okhotsk, the Kara Sea and onshore Russia. All areas will face severe challenges and the challenges are different between the regions (OG21, 2006). The region contains two core areas for world oil and gas output, Alaska and Siberia. Russians, Americans and Canadians have developed petroleum there for 30 years. Apart from these areas, where operations have largely been pursued on land, the Arctic represents fairly virgin territory (Johnsen, 2006).

Figure 10: The circumpolar area (OG21, 2006)

5.2.2. The Barents Sea

The resources located in the Barents Sea, which is both Norwegian and Russian territory, gain much attention today. At this point two Barents Sea fields are under development: the Snøhvit field in Norway and Prirazlomnoye field in Russia. Several other fields are planned in both Norway and Russia. Rough weather conditions and

the vivid marine environment make the Barents Sea a difficult place for petroleum developments (OG21, 2006).

5.2.3. The "New Focus"

In a speech in Tromsø November 10, 2005, The Norwegian Minister of Foreign Affairs, Jonas Gahr Støre, stressed a new and preferred international focus for Norway: The High North. The northern arctic area is described as a region with huge possibilities concerning natural resources, tourism and fishery. Particularly the focus on energy gains international attention. To meet the future challenges due to increased interest in energy development, the Minister launched a project called Barents 2020. The project forms a start towards developing the High North, which is expected to be one of the most interesting regions in Europe, especially when it comes to energy resources and international cooperation (Støre, 2005). In the Strategy Plan for the High North, composed by the Norwegian Department of Foreign Affairs, it is stated that one of the main targets is to develop a closer cooperation in the High North, especially with Russia. Norway, which has long and well-established experience in the petroleum sector, will be an important actor in the Barents energy developments. Developing offshore fields has been a daily challenge for Norwegian companies and world class technology has been generated (Thirud & Tjelta, 2005).

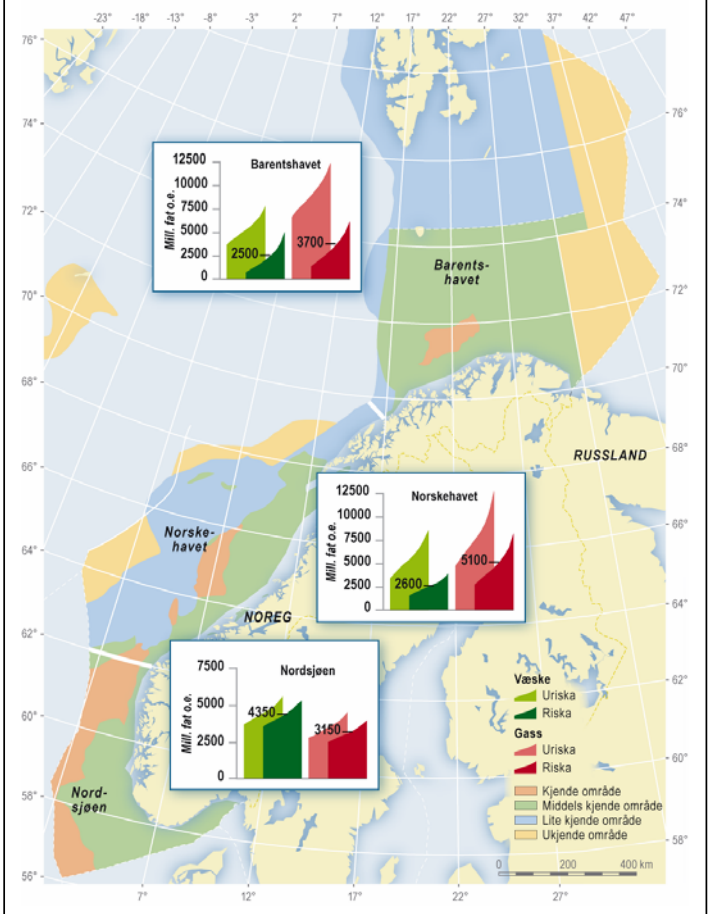
5.3. The Norwegian Petroleum Sector

The production of oil in Norway started in 1971 at the Ekofisk field. With the help of foreign oil majors and governmental national companies, the petroleum sector has advanced to become Norway's most important industry. It is vital to the national economy, and has made a big contribution to the development of the Norwegian welfare state. A substantial proportion of the revenues from the oil and gas sector accrues to the state, and contributes to the government's solid financial position (OED, 2007).

In 2005, Norway was the third biggest exporter and the 8th biggest producer of oil in the world. In gas it was the third biggest exporter and 7th biggest producer (OED, 2007). This clearly shows the global role Norway has established as an energy supplier.

5.3.1. The Norwegian Continental Shelf

Figure 11: The Norwegian continental shelf (OED, 2007)



In the future the Norwegian oil production is expected to decrease. In 2001 there was a peak in the production (OED, 2007). Since then the production has declined as a result of lower production at the main fields in the Northern Sea.

Even though production is declining it is still high compared to the discovery of new fields. The large production combined with the declining reserves results in a decreasing reserve basis for the Norwegian Continental Shelf (NCS) (OG21, 2006).

To change this situation it is important to focus on exploration of new fields. Moving the exploration of the NCS further north may solve the problem of declining reserves and production. In comparison to the North Sea, the Norwegian and Barents Seas are newer and holds more promise with regard to petroleum development (OG21, 2006). In the future considerable increased production is expected from these fields, while the production in the North Sea is expected to decline further.

Operating further north presents new challenges. The Barents Sea with its harsh climate and vulnerability due to its many species and vivid wildlife will be particularly challenging (The Norwegian Government, 2006). To cope with not only

environmental issues but also ice conditions, darkness and long distances to the markets, new technology and strict project management is crucial (OG21, 2006).

5.3.2. National Organization of the Petroleum Sector

"Close contact between various Government agencies and the oil and gas industry is important for the successful development of activities on the Norwegian continental shelf"
-NPD

The framework for the Norwegian petroleum activities, such as opening of new areas for exploration activities, approval of major development projects or issues of principle, is formed by the Norwegian Parliament. Authority is also delegated to the Government and the Ministry of Petroleum and Energy. Thus, overall administrative responsibility for petroleum operations on the Norwegian Continental Shelf rests within the Ministry of Petroleum and Energy (OED, 2007).

A close interaction between the authorities, oil companies, research institutions and universities is a key factor in the effort of value creation and competitive production of petroleum resources in Norway. The Ministry of Petroleum and Energy works in close dialogue with the Norwegian-based oil and gas industry to strengthen competitiveness on the Norwegian continental shelf, as well as the competitiveness of the supplier industry (OED, 2007).

In petroleum policies, government ownership is one of the most important used instruments. There are two major Norwegian oil companies controlled by the Government, Hydro and Statoil. Both are listed on the stock exchange and they are treated as any other independent, commercial company. There is a sharp distinction between the government as an owner and as regulator of the petroleum industry (NPD, 2007).

Another important objective is to make the Norwegian oil and gas industry competitive on a global scale by making it able to take part in exploration and production activities in other petroleum provinces outside the NCS. There is a strong support for internationalization of the Norwegian oil and gas industry (NPD, 2007).

5.3.3. The Norwegian Petroleum Cluster

According to the Norwegian Petroleum Directorate (NPD), building the Norwegian expertise has also been an important part of the Norwegian petroleum policy. In addition to all the major international oil companies, the Norwegian oil and gas clusters consist of internationally competitive supply and service companies covering the entire value chain, from exploration via development, production and operation to decommissioning. Norwegian companies are among the leading in the world when it comes to seismic survey, drilling equipment, sub-sea facilities and floating production solutions.

Appendix D illustrates which suppliers are needed in different phases of a field development. For instance, rent of the rigs is a dominating post in the exploration phase, while engineering services and fabrication of large constructions represent the main activity under the development of the field. When the field is in operation, administration, transport, service and maintenance become dominant. Of course, many actors work within several or even all these phases. In other words, petroleum activity gives origin to a considerable market (Intsok, 2007). The skills, experience and technology developed on the NCS are utilized by the international oil and gas industry all over the world. An example is the Norwegian-based sub-sea industry that has a leading position internationally with a 70-80 % share of the global market (Thirud & Tjelta, 2005).

Investments by oil companies in development, operation and maintenance on the Norwegian continental shelf generate a considerable demand for products and services from the supply industry in Norway and abroad. Oil companies' international activities give the Norwegian supply and service industry new opportunities. International experience and participation in international development projects are extremely important for the further development of the supply and service industry. This international experience could also help reduce the cost level on the Norwegian continental shelf.

In 1997, Intsok was established on the initiative of the government. The idea was to create an organization that could support the Norwegian petroleum cluster

internationally. As a regional development of oil and gas was expected in Northern Norway, an area without any petroleum experience, PetroArctic was established in 1997 as an organization for companies which want to position themselves as sub-suppliers to the petroleum activities in the Barents Sea. With over three hundred members, whereof 240 have achieved contracts, the organization is described as a success. Today PetroArctic has established cooperation with its sister organizations in Murmansk and Archangelsk, Murmanshelf and Sozvedzye respectively.

5.3.4. Norwegian Petroleum Technology

The development of Norwegian and Norwegian based petroleum knowledge has been an important part of the Norwegian petroleum policy. In the early phases most of the technology was transferred from foreign companies and suppliers (OED, 2007). Today with more than 30 years experience, the Norwegian petroleum industry has world class companies, supply industry and research institutions. The industry has succeeded in developing unique products and technology to a demanding sector (Thirud & Tjelta, 2005). Especially offshore technology in harsh climate has given Norwegian suppliers a substantial advantage in the global competition (OG21, 2006). Experience gained through operating on rough Norwegian Seas and many foreign soils, has made the Snøhvit and Ormen Lange possible. These projects make a solid fundament today which may be further developed in the exploration of the Barents Sea and the Arctic Region.

5.4. The Russian Petroleum Sector

In October 1876, the first shipment of oil from Baku[35] arrived in St. Petersburg. This was the start of the petroleum adventure in Russia. The first oil pioneer in the country was the Swede Ludwig "the Oil King of Baku" Nobel. After the revolution in 1905 the foreign investors were chased out of the country (Yergin, 1992).

Under the Soviet regime, the petroleum sector was, like the other industries, under national governmental control. It was then as now the locomotive in the Russian economy. Since the time of the Soviet Union, the national organization of the petroleum sector has changed. In Soviet times, oil and gas were clearly divided in a bureaucracy with many ministries and directorates. In 1989 the different ministries for

[35] Baku is the capital and largest city in Azerbaijan.

oil and gas were merged to one: The Industry and Energy Ministry. The objective was to achieve a more uniform energy policy and let the production unions handle practical business. The different production units were divided into two governmental companies with economical independence. One for oil; Lukoil and one for gas; Gazprom (Hønneland & Jørgensen, 2006).

The plan did not yield the expected results. In the 1990's the oil and gas business underwent privatization programs, which resulted in a formation of vertically integrated energy holdings by a small group of oligarchs close to power (Houlleberghs & Zaslavsky, 2004). Yukos and Sibneft were two prime examples of companies achieved by oligarchs for a low price.

When Putin came to power a new era began. The former wealthy and powerful owner of Yukos, Mikhail Khodorkovsky, was faced with trials and is today locked down in a tiny cell in Siberia. Yukos has been sold off in parts, with state owned Rosneft gaining most of the pieces through questionable auction processes. Rosneft-owner, Roman Abramovich, was a little cleverer and did not, unlike Khodorkovsky, interfere in Putin's politics. As he had to sell of his company to Gazprom, he could collect a nice sum of money. Today he is the wealthiest man in Russia[36] and number 11 in the world (Houlleberghs & Zaslavsky, 2004; Forbes, 2007; Midgley & Hutchins, 2004).

As the energy prices increases the revenues from the oil and gas exports goes up. The state achieves increased state budgets, but becomes more dependent on the oil and gas exports. Today petroleum exports contribute with 20% of Russia's GDP, 55% of the export revenue and about 40% of taxable income (Hønneland & Jørgensen, 2006). The energy sector has become the absolutely most important weapon of yielding pressure in both foreign and domestic relations.

5.4.1. Energy strategy towards 2020

In May 2003, the Russian government issued a strategy document which outlined the major priorities in the energy sector. With 30% of world gas reserves and 10% of world oil reserves, an important strategy for the future will be growth in the exports to boost the economy (Piper, 2007). To do so, an increase in production is necessary for

[36] A ranking made by Forbes, where they estimate his net value of $18,2 billion.

which there is an urgent need for investments throughout the petroleum value chain (Houlleberghs & Zaslavsky, 2004).

5.4.2. Petroleum Deposits

Since the beginning of the oil adventure, Baku had been the field of interest. In the 1930's the "second Baku" was discovered and developed in the Volga-Ural area. The discoveries in Western Siberia followed in the 1960's and became the most important fields of production at the end of the 1970's. This "third Baku" in Khanty Mansi made the Russian petroleum adventure world class. Some of the found were gigantic and was cost-effective to produce. The fields in are still the most important in Russia, with a 70 percent of the total domestic production (Hønneland & Jørgensen, 2006).

In the gas sector the real development did not start until the 1970's and 1980's in the Timan-Pechora area in the Komi republic. Gigantic discoveries were also made in the Jamal Nenets and the Barents Sea. The current production of gas in the Nadym Pur Taz area and in the Jamal Nenets amount to 90 percent of total domestic production.

Figure 12: Map of the different petroleum fields in Russia (Brunstad, 2007)

1 The Barents Sea	6 The Caspian Sea
2 Yamal Peninsula and Kara Sea	7 Eastern Siberia
3 Western Siberia	8 Sakhalin Island
4 Timan Pechora	9 Sea of Okhotsk
5 Caucasus	10 Chukotka and Bering Sea

Most of the current Russian oil and gas production is still onshore. In addition to the fields in the Yamal Peninsula and Western Siberia, the Timan Pechora, the Caucasus and Eastern Siberia are all onshore. Even though the Russian petroleum industry has a long and great experience in production onshore, the lack of investment and foreign cooperation have contributed to several challenges. For example is the extraction degree[37] in some fields as low as 20% and of what they get to the surface, 90% is water (Skretting, 2007). The precarious situation may create opportunities for western technology and services in the future: If the main targets of the Energy Strategy towards 2020 are to be met, new technology is needed.

Russian Petroleum Investors (RPI) estimates that currently more than 40 oil and gas projects in various stages are being developed on Russia's continental shelf (RPI, 2006). Of the fields in the Russian Barents Sea the main focus has been on Shtokman, the big master field which "everyone" has heard about, but where nothing has happened yet. This gigantic gas field was discovered in 1988. It is located in the central part of the Barents Sea, about 600 km north-east of the city of Murmansk. Shtokman's explored reserves are valued at 35300 billion cubic feet[38] (bcf) of gas. This makes it one of the world's largest proven offshore gas deposits (Gazprom, 2007a). As of today the project is delayed from its original plans. Whether production will commence in 2012 or in 2035 the disagreement among "experts" is as wide as a Babushka's behind. Following Alexey Miller's statement that Gazprom will use 100% of the Shtokman field resources on its own (Gazprom, 2006a) the disagreement on the starting date has become even hotter. Intsok thinks actual work will start at earliest 2010. And by that, they mean that the first phase of "Cutting Steal" will not begin until 2010. Intsok, which follows the project very closely, also state that Gazprom and its surroundings are working very actively with the project today (Skretting, 2007). The Norwegian environmental NGO Bellona estimates start at earliest 2035 (DN, 2007b). Gazprom itself stresses that the project is of strategic significance and that they have delayed the project management and foreign partner attraction for the Phase 1 concept until spring 2007 (Gazprom, 2007a). In other words, we just have to hold

[37] The degree of how much oil one gets up from a reservoir. If a reservoir contains 100 million tons of oil, only 20 million tons gets to the surface, while 80 million remain in the ground.
[38] The total Norwegian gas consumption in 2005, counted 3000 billion cubic feet (bcf) (BP, 2006).

our horses and wait for the grand master Gazprom to decide where the road goes from there.

At present time the Prirazlomnoye oil field, which is located south east in the Barents Sea, is under development. The license to explore and produce hydrocarbons in the field is owned by Sevmorneftegaz, a 100 % Gazprom owned subsidiary. The field was discovered in 1989 and contains 292 million barrels (mb) of oil (Gazprom, 2007b). In a meeting in February 2007, Gazprom's core business units, Sevmorneftegaz, Gazflot, Sevmashpredpriyatiye and Morneftegazproekt stressed the importance of the Prirazlomnoye field project. New infrastructure created inside the project area will form the basis for further hydrocarbon resource exploration in the Barents and Kara Seas. As of today, Norwegian companies (mainly from Southern Norway) have been awarded 30% of the offshore deliveries in this field (Barlindhaug, 2006).

The Yamal Peninsula is another strategic gas resource for Gazprom (Terekhin, 2007), and one of the most promising gas-bearing regions in West Siberia. So far, 26 fields have been discovered in Yamal, containing 367000 bcf[39] of proven reserves of gas and 1800 million barrels (mb) of extractable oil. The Yamal Peninsula is located east of Novaja Zemlja in the Yamal Nenets Okrug[40]. The peninsula covers huge oil and gas fields such as Kharasoveyskoe, Kruzenshternskoe and Bovanenkovskoe (Geopolitics of Energy, 2006). Gazprom, the operator of these fields, has planned the level of gas output up to 2010 to be provided both by the operating fields and by the new fields that are being put on production in the Nadym–Pur–Taz region in Yamal Nenets. Developing the fields in this region is economically viable because of their proximity to the existing gas transportation infrastructure (Gazprom, 2007a). In the period following 2010, the gas output targets are to be met by developing fields on the Yamal Peninsula, on the shelf of the Arctic seas, in the water areas of the Ob and Taz gulfs, in East Siberia.

The Kara Sea also contains considerable resources. The huge offshore gas fields such as the Leningradskoe and the Rusanovskoe which are possessed by Gazprom, are seen as strategic reserves (Terekhin, 2007), and are not planned to be developed for the

[39] This is 10,4 times Shtokman reserves.
[40] Okrug is the same as district or county (Hønneland &Jørgensen, 2006).

foreseen future. But it is worthwhile following the development of the plans for this area.

The Caspian Sea is very rich when it comes to resources in both oil and gas. Even tough IEA concludes that it is difficult to estimate exact figures; the oil reserves vary from 1700 to 4900 mb and gas to 232000 bcf (EIA, 2007). When the Soviet Union was dissolved, the economies in the countries surrounding the Caspian Sea collapsed. As the economic and political situations stabilizes, so will the growth in the petroleum investment (Terekhin, 2007).

The Sakhalin Island consists of five major projects, which in creative Soviet style are named Sakhalin 1-5. The most mentioned projects, Sakhalin 1 and 2, are expected completed in 2007, being fully operative by 2008 (The Sakhalin Times, 2007). Sakhalin 3-5, which are located in the Sea of Okhotsk, is explored and development is expected to come soon (Rosneft, 2007). In the Sea of Okhotsk, fields such as the ones in the West Kamchatka, and fields in the Chukotka and Bering Sea might see development in the foreseeable future (Rosneft, 2007).

5.4.3. Important Oil and Gas companies in Russia

With the privatization in the 90's most of the oil companies went to oligarchs through the infamous "stock for loans" agreements[41]. Companies such as Lukoil, Sibneft and Yukos came in private hands. Gazprom and Rosneft kept the governmental ownership and are today the main state owned companies, seizing more and more of the "strategic" resources. Sometimes their portfolio expansion is on the expense of other Russian or foreign companies, such as the case of the Sakhalin project where Sakhalin Energy, Shell and Exxon were forced to give shares to Gazprom and Rosneft to dodge environmental accusations.

Gazprom which accounts for 85,5% Russia's total gas output and some 20% of worldwide natural gas output, is the undisputed dominator of Russian gas. Gazprom produced 19300 bcf of gas in 2005. The increased production in combination with

[41] An arrangement where banks agreed to give loans to a starving government. The deal was simple: pay it back later or give us shares in your industry. The government solved the problem by "giving" away companies such as Yukos and Sibneft. The bankers soon become industry magnates, known as the oligarchs (Houlleberghs & Zaslavsky, 2005).

high prices resulted in incredible profits. In 2005 they achieved a net profit of RUR 311.1 billion or US $11.6 billion, up from 209.4 billion rubles in 2004 (BBC, 2007; Gazprom, 2007). With more gas than any other gas company in the world, about 17% of the world's proven gas reserves and more than 60% of Russia's reserves, it has a dominating role not only in Russia but also in the global market (Terekhin, 2006).

Gazprom is planning to increase its annual gas output to 19600 bcf by 2010; to 20650 bcf by 2020; and to 21900 bcf by 2030. To do so, one objective is developing their resources in the North. As owner of fields such as Shtokman, Prirazlomnoye and several other fields in the Barents, Yamal Peninsula and Kara Sea, Gazprom will be one of the most important players on Russian territory and especially in the High North. As whole-owner of several other companies which operate in the North it might be an important "friend" for companies urging for operations in the North or other places in Russia. One of the 62 companies it fully owns is Sevmorneftegaz, which is the owner and operator of the Prirazlomnoye and Shtokman fields. Another company Gazprom fully owns is the exploration and ship-owning company, Gazflot, which operates in the North and several other places in Russia. In addition to the fully owned companies, Gazprom also owns, with more than 51 percent of the stocks, 44 companies. Looking at ownership of less than 51 percent, they own stocks in 59 companies. Adopting an aggressive international strategy consisting of cooperation with several major international companies, they are en route to their main target. As deputy chief executive, Alexander Medvedev, said during an interview in April 2007: "We'd like to be the most-valued and most-capitalized company in the world by reaching a $1 trillion market capitalization in a period of seven to 10 years" (Lucian & de Roy, 2007).

Rosneft is also an interesting company when it comes to future growth. It was established in 1992 to manage the production that were not yet privatized and it would also play a role in the management of government stakes in privatized companies. The plan did not end up as expected and by 1998 Rosneft had lost much of its subsidiaries to private major such as Sibneft. In 1998 the situation changed. After gaining support from Putin, the quest for getting assets back has progressed (Houlleberghs & Zaslavsky, 2004). Today Rosneft aim to become the leading Russian energy company, both in production and financial performance. One of the strategies for

reaching the target is to increase crude oil production by exploiting existing crude oil reserves (Rosneft, 2007).

Other companies that have shown considerable growth in both production and profits are Lukoil and TNK-BP. Lukoil controls 18 percent of the Russian oil production. The company is listed on the London Stock Exchange and has a wide cooperation in Russia with Conoco Phillips (Lukoil, 2006). TNK-BP is a joint venture between Russian TNK and British BP, a 50-50 relationship. They are the third biggest oil producer in Russia controlling 15% of the production (TNK-BP, 2007; Houlleberghs & Zaslavsky, 2004). Companies such as Surgutneftegas, Yuganskneftegas, Tatneft and Bashneft also have a substantial part of the oil production. The two former oligarch-owned companies, Yukos and Sibneft, are both sold off and are on the hands of mostly state-owned companies such as Gazprom and Rosneft.

Of foreign companies operating in Russia, besides BP and Conoco Phillips, Shell has the largest operations. Last year however, Shell ran into problems in Russia concerning the product sharing agreements[42] (PSA) made in the mid 90's. ExxonMobile and Total have also faced similar problems in their PSA's. Italian ENI which has operated in Russia since the 1950's has a joint venture with Stroitransgaz (ENI, 2007; Houlleberghs & Zaslavsky, 2004). In October Chevron and Gazpromneft signed a framework agreement establishing a joint venture for exploration and development activities focusing on the Yamal-Nenets region of western Siberia. Chevron will maintain a 49 percent joint-operated interest (Chevron, 2007). We see that even if the western majors still face problems in Russia, it does not stop them from continuing business in this resource rich country.

5.4.4. Russian Supply Industry

With a projected increase in investments in the petroleum market, the growth opens new opportunities for investment in the petroleum supply industry. For example has the American Schlumberger, one of the biggest petroleum field service companies in the world, experienced a major growth in its operations. Its Russian revenue has

[42] Are used primarily to determine the share a private company will receive of the natural resources (usually oil) extracted from a particular country (Wikipedia, 2007).

grown from $50 million in 1999 to $1.25 billion in 2006, an annual increase of 50 percent (RPI, 2007).

The Russian energy analyzing agency RPI[43] indicates that the Russian product supply market and the service market will be a booming market over the years to come, opening opportunities in almost all of its segments for various industry players. They size the Russian oilfield service market to amount to about $10 billion annually.

This may create opportunities for both foreign exporters and investors. For foreign companies seeking markets in Russia, Intsok stresses that they will face many benefits by producing their products in Russia. It will be easier to pass Russian standards, the product can be tested in nearness of Russian customers, local installers get to know the products and it makes it easier to perform servicing of the product after installation. With Gazprom companies such as Sevmorneftegaz and Gazflot establishing themselves in Murmansk, now is a good timing for establishment there (Skretting, 2007).

The experience from the Prirazlomnoye field shows that Norwegian companies specialized on offshore technology and maritime operations have opportunities to seize a considerable market share in upcoming offshore developments (Barlindhaug, 2006).

Appendix E shows a lack of companies with experience from offshore operations, especially within the area of sub-sea and decommissioning (Skretting, 2006).

But even though there is a market for offshore experience in Russia and the timing is correct for production in North West Russia, Intsok stresses that the big decisions are taken in cities such as St. Petersburg and Moscow. If a company wants a contract, stresses Intsok, it should establish itself in the larger cities (Skretting, 2007).

[43] RPI (Russian Petroleum Investor) is a leading publication service on the former Soviet Union oil and gas industry.

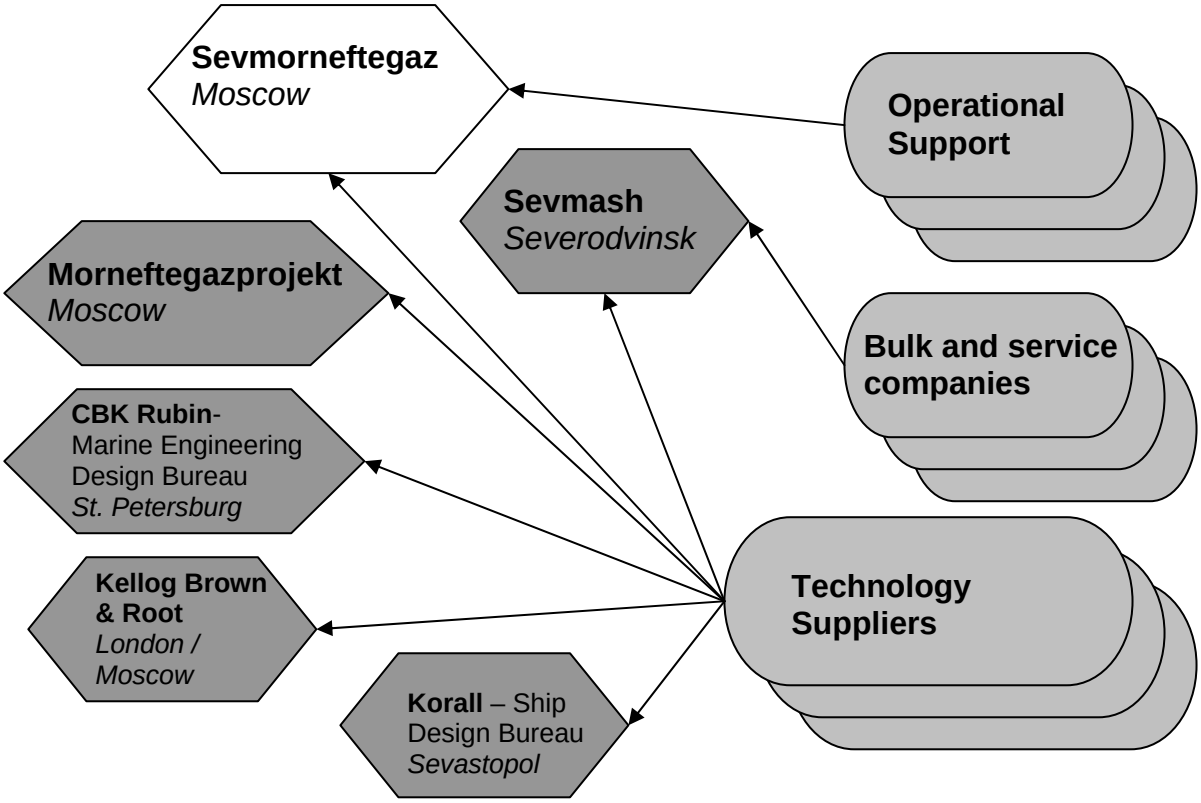


Figure 13: Decision makers in Prirazlomnoye development (INTSOK, 2007)

This graphic shows the important actors of the Prirazlomnoye development. The management and decision makers of these companies are not situated Murmansk but in the technology capital St. Petersburg or the finance capital Moscow (Skretting, 2007).

5.5. The Russian-Norwegian Energy Cooperation

To meet the increasing demand for the resources in the Arctic, a future strengthened cooperation between Norway and Russia is expected. In 2002 when Norwegian Prime Minister Bondevik and Russian President Putin declared a future Norwegian-Russian energy cooperation, Putin emphasized the importance of the energy dialogue between the countries (Enoksen, 2006).

By entering into close cooperation with Russia, Norway may strengthen its position as a petroleum state. The two countries are both experienced in the petroleum sector and have the opportunity to learn from each other. It is therefore of importance that the Norwegian petroleum cluster are active in maintaining a strong position in the coming oil and gas bonanza in Russia as well as on Norwegian side. Today we see Statoil and

Hydro working towards participation in the Shtokman field. Even though ownership participation was turned down by Gazprom last year (Gazprom, 2006a) hope has not yet vanished for a participation in some way or other. The Governor of Murmansk stresses that the Norwegian technology is necessary for developing the fields and the Norwegian companies should be included (Barentsobserver, 2007d).

Statoil is playing a proactive role in that sense. Funding and advising Murmanshelf, a Murmansk based petroleum supplier union, analogical to PetroArctic in Northern-Norway, the company plays an active role in educating the Russian supplier industry (Andvik, 2007). The goal is to develop international contacts, so that Russian businesses may learn from others and in turn from each other. Much competence is needed on issues such as HSE, logistics and quality control (Fadeev, 2007). Knowledge on issues like setting out strategies and working towards them, and on financing and managing projects is also needed (Andvik, 2007). Fadeev is the Director of Murmanshelf, while Andvik acts as its counselor from Statoil. Asked how a Norwegian company should go about to establish itself in Murmansk they emphasize knowledge of language and culture and long-term thinking as vital. They further state that cooperating with a Russian partner may be useful, especially in an initial phase to avoid judicial and regulative surprises.

Statoil's obligation and a memorandum of understanding with the local authorities also include other areas of commitment such as contributing to Murmansk Philharmonic Orchestra (Andvik, 2007).

5.5.1 "The Pomor Zone"

From the report Barents 2020 an establishment of an industrial and economic zone between Norway and Russia is suggested. The zone will stretch from the Petchenga fiord in Murmansk Oblast to the Jarfjord in Sør-Varanger Municipality. "The Pomor Zone" is meant to facilitate Norwegian-Russian cooperation in the

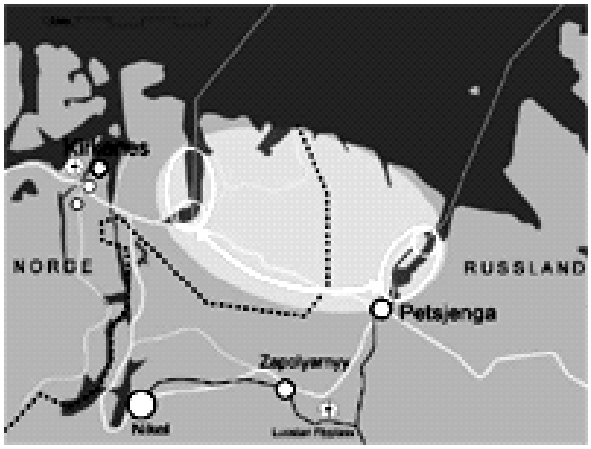


Figure 14: The Pomor Zone (Barents Observer, 2007)

development of offshore hydrocarbon fields in the Barents Sea. The common zone is warmly welcomed by the Norwegian government and also by the government of Murmansk Oblast and the Russian Foreign Minister, Sergey Lavrov (NRK, 2007a).

5.5.1. ”The Disputed Area”

Norway and Russia have negotiated over the delineation of the 175,000 square kilometers disputed zone for more than 30 years, without reaching a compromise. In April 2007, after a meeting between the Norwegian and Russian foreign ministers, the Russian foreign minister expressed an unprecedented positive position on the zone in the Barents Sea. ”We have come a long way in the finding of a solution on the area located closest to the coast”, Sergey Lavrov confirmed. The statement indicates that the countries have agreed on how to divide the areas closest to shore. (Barentsobserver, 2007c). The area is expected to contain several major fields of both oil and gas.

Summary

The global energy market experience a high demand for energy recourses due to the globalization and economic development in non-OECD countries such as India and China. As the prices of energy stays high, new areas become interesting for development. 25% of the remaining hydrocarbon recourses are expected to be located in the Arctic. Great deals of these recourses are located in Norway and Russia. Especially Russia possesses gigantic fields such as the Shtokman. But their lack of offshore experience is a problem Norwegian company’s hope they may solve by participating in the Russian project. As talks of Shtokman and Gazprom is dominates the Western media, several other offshore fields and companies are of interest in the Russian market. Independent from whether the Shtokman decision will include Norwegian companies or not, the Russian-Norwegian energy cooperation is expected to strengthen in the future.

6. Reinertsen AS and Reinertsen NWR

This chapter presents an overview of the internationalization process of Reinertsen AS, resulting in the establishment of the WOS Reinertsen NWR. The overview is built mainly on information from interviews with Torkild Reinertsen, President of Reinertsen AS and Svein Grande, Manager of its subsidiary Reinertsen NWR.

"If you sleep with a bear - either to make love or to fight, there is a great chance of being wounded."

-Torkild Reinertsen

6.1. Reinertsen AS

Reinertsen is a family-owned Trondheim based company. They offer EPCI (Engineering, Procurement, Construction and Installation) deliveries within the fields of construction and oil & gas. This paper has focused on the oil and gas side of Reinertsen's activities.

Reinertsen AS is one of the bigger Norwegian actors within EPCI deliveries to the oil & gas sector. The company operates in the entire value chain, delivering counseling, operational and maintenance services on addition to EPCI deliveries. The 2006 turnover was NOK 2.2 billion and the company has around 1500 employees. Reinertsen has offices in Norway, Sweden and Russia (Reinertsen AS, 2007).

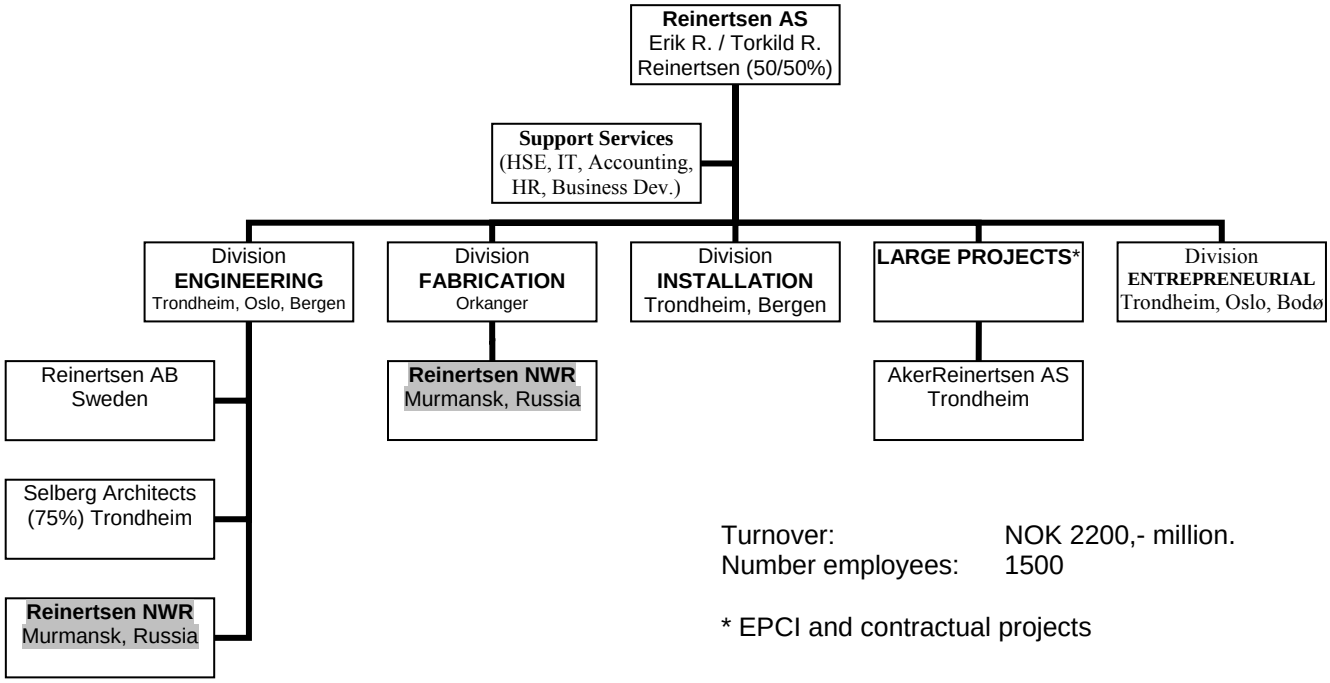


Figure 15: Corporate Structure Reinertsen AS (Reinertsen AS, 2007).

6.2. Reinertsen NWR

"Our establishment in Murmansk happened under special circumstances." Torkild Reinertsen explains further: They had won a project for Fluor (a supplier to Statoil) and Statoil. The project was planned to be produced in Poland to reduce cost.

"On the 10th of January 2005, a little more than two years ago, I was sitting right there." He points to his desk. "Our prospects looked gloomy. The competition had established production in low cost countries, while we had all our production in Orkanger (in Norway). That was the moment when the idea first came to me. We were going to establish ourselves in Russia."

The background for this decision was Torkild Reinertsen's travels to Russia the last 15 years. He had been there a lot and had closely monitored the development in Russia. He had however not given serious consideration to the thought of entering the Russian market earlier. Now, with the competition establishing themselves in low cost production countries, Reinertsen too had to diversify their production opportunities. But Torkild Reinertsen wanted more than "being a small piece in a big Polish jigsaw puzzle".

Deciding to move away from Poland in order to create their own sphere of interest in a more virginal market, Reinertsen AS had to move quickly in order to meet the time demands of the Fluor / Statoil project. "Production was scheduled to start on the 18th of April, and we knew absolutely nothing about where we were going to do it. We didn't even know in which city we were going to establish ourselves. So we stormed ahead" says Torkild Reinertsen.

Thus, in record time, a company was set up. Murmansk, with an ice-free harbor was chosen over Archangelsk as the city of production. Svein Grande was hired to be the operative manager of the plant, but it soon turned out that his Russian language skills were needed for other aspects of the operation as well. Therefore he soon took over as manager for the entire operations.

Grande says that in order to speed up the process, an already existing sleeping company was bought. Existing production facilities were found and bought within the Murmansk Shipyard complex. The facilities severely needed upgrading, and in order to minimize bureaucratic hassle a local approved contractor was hired to do the upgrading.

"Fluor was dead against doing the project in Russia," says Torkild Reinertsen. "They said we had nothing there. No place to be, no network of suppliers and no infrastructure whatsoever. Statoil was more positive to the idea."

Since Statoil was interested in gaining a foothold in the North-Western Russian market, having them as a customer was an advantage to their establishment. Statoil went so far as to provide financial support to Reinertsen NWR for the training of Russian operators. In order for them to comply with strict production standards, they were all sent to Reinertsen's Orkanger production facility for training. Here they were trained in HSE and became certified welders. Torkild Reinertsen says that they also got NOK 400.000 from Innovation Norway as well as support from Hydro.

The first shipment was, despite dim prophecies, delivered on time and according to specifications. As of today Reinertsen NWR is already generating profits.

6.2.1. Company structure

Reinertsen NWR is 100% owned by Reinertsen AS. Reinertsen NWR's organization map can be found in appendix B. As of May 2007 it has 83 employees: 10 in the administration, 19 engineers, 2 electricians, 1 mechanic, 3 drivers and 48 welders and platers.

Although being Norwegian-owned it is registered as a Russian company. In the initial phase a Russian partner owned a share of 30% in the venture.

"We swore that we would avoid at any cost taking on a Russian partner!" Torkild Reinertsen explains that they were early pressured into taking on a partner. "The first time we went there to look for a production site, many locations were available. The second time we came, all of a sudden not a single location was free." He says it was pretty apparent that local actors expected to receive a piece of the pie. "The problem is however, says he, that the local businessmen have no competence on supplying the international oil industry."

Eventually they had to take on a Russian minority partner in order to get a production site. The partner was explained plainly that the business venture would not yield the high returns he expected. Torkild Reinertsen says that he is very happy with a return around 7%, while the partner probably believed that 30% was realistic. He did not understand the high demands for quality and HSE that were required in the production. The aspect of internal invoicing could also prove problematic. Torkild Reinertsen tried to explain that internal invoices on products and services from the mother company would look quite steep in Russian eyes, and that perhaps the Russian partner would think he was being scammed. After a year where Torkild Reinertsen traveled intensively to Murmansk, the partner finally understood that Reinertsen NWR was not a note-printing press, relented and gave back his share of the company.

According to Grande, the Russian partner did not provide much help in the establishing. He points out that Russian business men are very short-term minded, paying more attention to having a fancy car than a healthy business. There is a Norwegian saying, "Å spare seg til fant", which could be used to describe this

mentality: The short-term mentality results in cutting costs to such an extent that it becomes an obstacle to create value. Grande says that it would have been an obstacle in the long run, having a Russian partner.

6.2.2. The Product

Reinertsen NWR prefabricates large structures in steel, for delivery to the petroleum industry. The structures make part of constructions that are later finished in Norway. A long-term goal is to engineer and manufacture complete sub-sea and platform modules in Murmansk, using Russian raw materials. Torkild Reinertsen estimates that the cost of producing in Russia is around 30 – 40% lower than in Norway.

Appendix C shows all completed and ongoing projects that Reinertsen NWR has undertaken.

6.2.3. Suppliers to Reinertsen NWR

Reinertsen NWR is dependent upon competitive and competent suppliers. Reinertsen NWR must meet strict standards regarding quality and HSE routines. This also applies to all sub-suppliers. Supplies such as steel, paint and insulation must come from approved suppliers.

Most Russian businesses are not capable of meeting the strict petroleum business standards and still be competitive on price. Henceforth the only commodities that can be bought locally today are machined and turned steel parts.

Another obstacle to the use of Russian subcontractors is the business mentality. Grande says that a Norwegian company may be very happy with a 5 percent profit, whereas a Russian business would deem that margin too low. Grande thinks this mentality is especially characteristic when Russians deal with foreigners. He gives an example from the cement work at their new production plant. In the end Reinertsen NWR decided to do it themselves at a cost of NOK 2 million. The cheapest Russian bid was for twice that price.

As a result of these factors, Reinertsen imports most of their supplies. Imported goods must, naturally, undergo strict custom controls. Grande says that the biggest challenge

for him, regarding customs, is training Norwegian suppliers to comply with custom standards. There is little competence on export to Russia in Norway, and not many businesses are approved exporters to Russia. In order to overcome this lack of competence on behalf of Norwegian sub-suppliers, and to overcome Russian customs bureaucracy, all procurements are centralized and shipped from Reinertsen's main office in Trondheim.

6.2.4. Competition

As of today there are few or none Russian competitors for Reinertsen NWR. The products are so specialized and must meet such strict standards that Russian companies are not competitive. Other manufacturers of steel products in the area are cheaper than Reinertsen NWR, delivering similar but low-standard products. Grande says that many large ship yards in the area are capable of constructing complex and high-tech constructions such as submarines. They have however difficulties meeting specifications and time limits. There is also the issue of HSE and quality control that makes it challenging for international petroleum companies and suppliers to deal with these large and bureaucratic actors.

6.2.5. Customers

Reinertsen NWR does not deliver to any Russian companies as of today, but have been able to meet the high international and Norwegian standards as a deliverer of heavy steel structures to the Norwegian petroleum sector. The structures form part of more complicated structures assembled outside of Russia. As an example, the first contract Reinertsen NVR delivered was steel constructions for Statoil's Kollsnes facility. Other customers include Norsk Hydro and FMC Technologies. The products are consequently exported from Russia to projects and customers abroad.

6.2.6. The Public Framework

Local authorities

Grande says that Reinertsen NWR maintains a good relationship with the Murmansk authorities. The governor himself conducted the official opening of the company. He expressed gratitude that finally someone actually undertook a business venture in the area, instead of speaking of the enormous future possibilities the area offered.

Grande has experienced little trouble with Russian bureaucrats and public servants. He can not say for certain why that is so, but wittily suggests that the fact that you need a "propusk" (a permit) to enter the shipyard area might have a positive effect on the number of visits from public servants. Torkild Reinertsen sees the connection to the governor as crucial: "The public authorities have been supportive to our initiative. We have created jobs, and a positive attitude towards our operations is established". He subscribes the lack of bureaucrats running down the door to the fact that the governor is very positive to what they are doing.

Regulations

Many rules and regulations from the Soviet days still endure. Grande mentions a few examples: For the new production hall that they are building they are installing electric power. In addition to providing cables and a transformer station from the main grid themselves, they have to pay a fee of about NOK 1500 per kilowatt installed capacity. With a capacity of 2 megawatts the connection fee is NOK 3 million. With a large capacity electric installation they are obliged to employ an electricity commission. This commission consists of 3 electricians, of which one must have a higher degree within the field of electricity.

To keep cranes, they must have a crane commission of 5 men. The most striking example is perhaps the strict routines surrounding the company car. In order to keep a car, they must employ one mechanic, one nurse and one driver. Every day the mechanic is to check that the car is in a satisfactory condition, whereas the nurse makes sure that the driver is in a satisfactory condition. If that is so, they make a journal entry that everything is all right. The journal is checked and signed by the manager before the driver may use the car.

Grande attributes cumbersome regulations to the fact that most Soviet-day companies were really large and suffered from no shortage of workers.

6.2.7. Corruption and organized crime:

Torkild Reinertsen gives an example of an unpleasant happening, but underline that Reinertsen has zero-tolerance for corruption. He claims that there is a difference in mentality between people in NWR and Moscow-based people. The Moscow based people are greedier and unlike local entrepreneurs not interested in creating local value.

6.2.8. Cultural aspects

The role of the manager and the employee

Svein Grande is a very versatile man. Apart from speaking and writing Russian, he has experience from being a metal worker, and industrial diver, a farmer and a truck driver. His practical experience comes in very useful, being a leader in Russia. Natalia Swahn (2002) has written a doctoral thesis on the cultural differences in business between Norway and Russia. Her findings on the role of the leader show clearly that there is a great difference between how a Russian and a Norwegian leader behave and is expected to behave. For instance, a Russian employee expects his leader to be more skilled than himself, even in the details of the work. The leader is expected to give detailed instruction on a finished product's characteristics and even on how to proceed to end with satisfactory results. The employee then carries out the work strictly according to instructions. Swahn (2002) claims that even if the worker might understand that something should be done in a different way, he will not deviate from the instructions given to him by his superior.

Grande says that he spends much more time in the shop than he had originally intended. His practical skills are very useful, giving him the ability to set a good example for his subordinates in their work. The term subordinate might seem harsh to Norwegian ears, but the hierarchy in a Russian business is very strict and the leader is supposed to know the answers to any problems that might arise. The leader must act decisively and show no doubt in order to not lose respect (Swahn, 2002). Grande mentions that the Norwegian leader of the development of their new plant faces some problems utilizing his Russian colleagues. He thinks this might have to do with the fact that the leader spends too little time outside of his office, in the field.

Grande has first hand experience being a leader in Russia. He says that his leadership style is Norwegian, adapted to Russian conditions. He is aware of the fact that he has to act authoritatively to maintain respect. He mentions a few examples of the challenges he faces. A contract of employment is very detailed. Russian employees are prone to be less flexible than their Norwegian counterparts. A welder for instance is reluctant to take on other tasks than welding. Grande says that it has been a challenge for him to make employees understand that he expects the employees to work with tasks other than their main task if that is needed. Initiative at the work place is something of a challenge for him. The writers think that this might have something to do with the work ethics adopted under the Soviet regime. A Soviet worker had no incentive to do more than a minimum. Unless he did something directly wrong, he would not lose his job. If he did something wrong he would lose his job or at least attract unwanted attention from his superiors. Therefore it was better to do a minimum than try to do a good job, since the payoff was the same.

Grande further says that Russians are extremely problem-oriented. He is often met by an attitude that something can not be done. In that case, he pulls rank and says that they might be right, but they are certainly going to try to do it. And most of the times they succeed.

Grande says that Russian workers have a great professional pride, and that they are professionally capable. Reinertsen NWR pays more than the competition, they invest more in their staff and also expect more back. That, thinks Grande, leads to proud staff, working for a high status company.

Svein Grande writes and speaks fluent Russian. He says that knowing the language is an absolute requirement for doing business in Russia. The fact that he speaks Russian makes it possible for him to feel the pulse of the company. He says that it is impossible for someone who does not speak Russian to notice signs of conflict or discontent with something or another. In addition to Grande's language competences, only two Russian employees speak a little English and a little Norwegian respectively. As a consequence Grande spends much of his time acting as an interpreter. For instance a Norwegian inspector from Veritas or an oil company that has comments on something, must go through Grande to communicate those comments. This keeps

Grande updated on the details of the operation, which is probably good for a Russian leader, but it is very time consuming.

Cultural differences or demonstrations of power?

Reinertsen NWR is willing to support local businesses with the right attitude in order to build a supplier base. Asked what "the right attitude" is, Torkild Reinertsen gives a few examples of the opposite. He describes meetings with fancy-title General Directors with no service attitude whatsoever and lack of knowledge on their own company. "It is expected that the customer comes bootlicking the supplier." He tells that business transactions that would be a formality in Norway, like ordering concrete, becomes an entire ceremony where the customer is expected to almost beg the supplier to do business with them. 50% of the transaction must be paid in advance and there is unnecessary much paperwork with many different stamps on it.

"The right attitude is someone who can appreciate the supplier role. Someone who can be humble" says Torkild Reinertsen.

Torkild Reinertsen offers a down to earth point of view on culture: "If you have an attractive product and customers like doing business with you that is the most important." Meeting with other cultures, he sometimes wonders what are results of cultural differences and what are pure power demonstrations?

6.2.9. The road ahead for Reinertsen NWR

There are many positive spin-off effects for the local community connected to Reinertsen NWR's activities. "We have no desire to build up internal competence on the entire specter of services that we need" says Torkild Reinertsen. He adds that they are constantly looking for local actors with the right attitude, to build a base of Russian suppliers.

Reinertsen NWR has no clearly defined goal. "We continue the process of building our business". Today's bottleneck is in engineering capacity, but the construction capacity is also almost fully utilized. Reinertsen NWR is almost fully booked for the remainder of the year, even with 80 operators working there.

Reinertsen AS has also established an engineering office in Murmansk. 30 engineers are working via the intranet, participating on projects with engineers from Reinertsen's locations in Norway. To achieve a good result from this decentralized way of working, Reinertsen AS has employed NASA inspired working methods. Each location where engineers work has interaction rooms with video-conferencing equipment and large screens. Drafts can be sent back and forth and be worked on simultaneously from different locations.

Part of the motivation behind choosing North-West Russia as location for their business establishment is clearly the opportunities in future petroleum developments. "When Shtokman comes we are already present. We are however in no hurry. We are involved in other projects." The downside of the expected developments is that costs in the area will rise. "When Shtokman and other developments take place, the cost level will rise rapidly. There will be a lack of skilled personnel in North-West Russia". Then Reinertsen NWR will lose some of its price advantage for the present markets outside of North-West Russia. The upside is that Reinertsen NWR will be in an excellent position to participate in the developments.

Reinertsen is in the process of launching a marketing campaign towards potential Russian customers. Torkild Reinertsen will do much of the campaigning personally, and will in any case be strongly involved in the process.

Potential Russian customers include among others Gazprom with daughter companies, Rosneft and Lukoil. "In the Norwegian market we have utilized our capacity and must look outwards to expand. We need to diversify in order to have a foothold in Russia when the recess comes in the Norwegian market. Our establishment in Russia is a result of 20 years of building competence. We have many international customers that know our competences and what we stand for," says Torkild Reinertsen.

Torkild Reinertsen says that they have close ties to Gazflot and Gazprom in Murmansk. At this moment they are taking their business a step further in acquiring land and building new production facilities across the bay from their existing plant. Their new neighbors at this location will be Gazflot, a WOS of petroleum giant

Gazprom. Gazprom officials are also scheduled to visit Reinertsen's main office in Trondheim.

The new engineering and fabrication facility will officially be opened the governor of Murmansk Oblast and Norway's Prime Minister in early June.

7. Analysis

In this chapter we will link the empirical findings to the theory in order to analyze the situation and comment on factors that in our opinion form important elements of Reinertsen NWR's success.

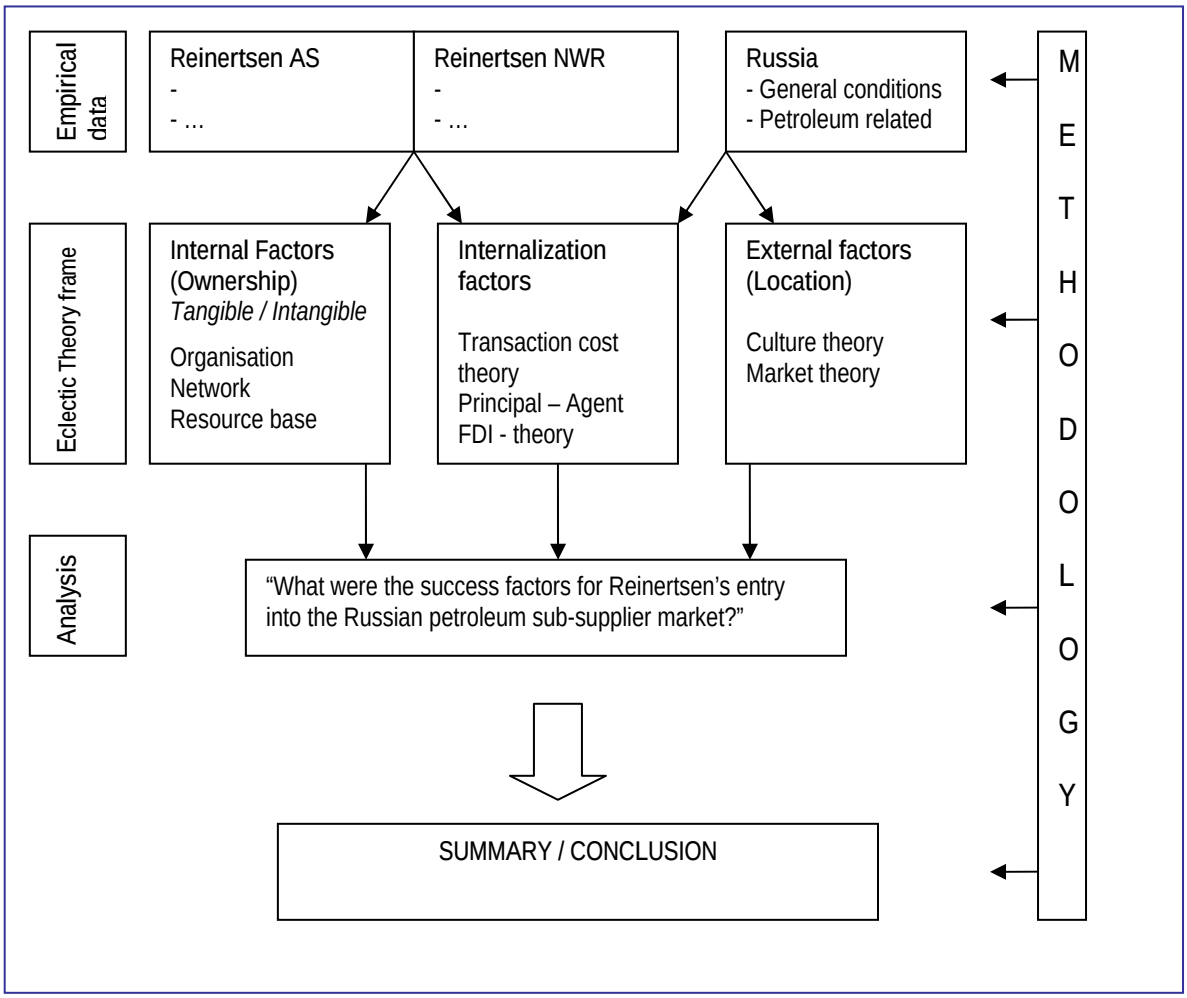


Figure 1: Our research model based on Dunning's eclectic theory

As our research model shows, we have divided the empirical data into internal and external factors, as well as factors concerning Reinertsen AS' motives and incentives to internalize intangible resources such as knowledge and tangible competences such as workforce and equipment.

Dunning's theory has been widely used for FDI research, exploring obstacles to and success factors for FDI (Tolentino, 2001). Several reports on FDI into Russia find that

Russia's ability to attract FDI has been low compared to comparable emerging markets (Jones et al., 2000; Moore, 2006; World Bank, 2006; OECD, 2006; Shevtsova, 2006). Russia has been seen as a highly uncertain and unpredictable country to do business in. The pessimists have seen their previsions come true, especially in the strategically important oil and gas sector, where several more or less open mock processes have led to increased government control and losses for foreign companies (Economist, 2006; Moscow Times, 2006;2007; NYT, 2006).

Why then, has it been possible for Reinertsen NWR to write black numbers already after two years? In other words: **"What were the success factors for Reinertsen AS' Foreign Direct Investment into the Russian petroleum sub-supplier market?"**

We have drawn a wide and at some points deep picture of the background relevant to answering this question. In order to convey an understanding of the important cultural aspect we have gone through the Russian history. To convey an understanding of the petroleum business we have accounted for both the Norwegian and the Russian side of this industry. We have presented important aspects of the Russian economy. We have interviewed the driving force and strategist behind the establishment as well as the manager facing the daily challenges of doing business in Russia. We have spoken to several other experts on and insiders in North-West Russia. The theoretical framework has been clarified and methodological issued discussed. We are well equipped to do a meaningful analysis.

7.1. Reinertsen in Dunning's eclectic framework:

7.1.1. Internal factors (Ownership advantages)

The fact that all business includes some transaction costs leads to the conclusion that an internationalizing company must have Ownership advantages. The assumption rests on the fact that a company will experience larger transaction costs when going abroad in a new market. Competing with local companies with smaller transaction costs, the ownership advantage compensates for the costs the internationalizing company has relative to local producers. These costs are costs of setting up and operating a foreign business.

Intangible Organizational Factors

Experience from complex projects and international operations:

Going abroad, Reinertsen's experience from complex projects was useful. The Uppsala model by Johanson & Vahlne (1977) explains that previous experience may help when facing complex projects. The whole establishment process in Murmansk may be seen as a complex task in a foreign environment. Despite geographical proximity, the psychological distance to North-West Russia is high. Previous international experience is according to the Uppsala model advantageous to tackle the problems of facing a market with high psychological distance. Reinertsen had experience from country such as Sweden, Great Britain, Brazil and Iran.

High-tech cooperation methods:

The resource based theory focuses on knowledge as a costly-to-copy asset, driving a company's competitive advantage (Ahokangas, 1998). Tallman & Fladmoe-Lindquist (1994) claim that, in order to prosper, large decentralized organizations must master the art of network-learning. In-house, local routines are no longer sufficient, as the resource base is spread across borders.

Interaction is a key word in large and complex projects. Several different professional disciplines must be accommodated in the same project (Reinertsen, 2007). Time is of an essence, and there is little room for delays. In order to make this process as efficient as possible, Reinertsen has adopted NASA-inspired working methods.

Rooms stuffed with advanced electronics and communication aides have been installed at Reinertsen's different locations. These interaction rooms have several large screens, video conferencing and computer equipment, and are used to coordinate projects with engineers working together from Murmansk, Gothenburg, Bergen or Trondheim. "In this way, we maintain a decentralized resource pool on the engineering side. We also expect to save about 30% of working hours and 30% of the total engineering time for projects" says Torkild Reinertsen.

A dedicated and skilled management:

The management has also been of major importance to Reinertsen NWR's success. Read (2007) emphasizes that sufficient managerial resources is a necessity to succeed in international operations. Svein Grande has been the local manager for Reinertsen in Murmansk. His excellent knowledge of Russian culture and language gives him the right experience to handle the cultural barriers when working in Murmansk. Hofstede's (2007) overview of the cultural dimensions in Norway and Russia shows a great difference in the two cultures. The cultural difference is described as one of the main barriers of doing business in Russia. Grande says that mastering the language has been an absolute necessity as a leader. The same has his broad working experience. His workers expect him, as a leader, to know everything and have an answer to everything. The differences in the management culture are huge according to Grande. This is underlined by Swahn (2002): She claims that a business leader in Russia is supposed to be assertive and omniscient, whereas a Norwegian leader, more of a coordinator, is expected to counsel his subordinates so as to utilize their specialist knowledge.

The presence and involvement of Reinertsen's President and top decision maker, Torkild Reinertsen, has made the establishment fast and successful. Reinertsen AS' exceptional power of reaction as compared to other large companies has been important. In Russia there is a more hierarchical structure where major agreements and decisions are made among leaders at the same level of the hierarchy (Strand, 2005). The more loosely based way of doing business in Russia (Swahn, 2002) makes it important to make fast decisions. The involvement of the top management has made the company adaptable and flexible and thus been very important in the internationalization process. One example is how Reinertsen secured a property next

to Gazflot. Decisions had to be made rapidly, and it was an advantage that Torkild himself knew the situation. In that way he was available to make the necessary decisions in the right time and thereby achieve the advantageously located property.

The Person of the Decision Maker:

Torkild Reinertsen seems to be a key factor in many ways. According to Wheelen & Hunger (1990), the person of the decision maker is one of the most important internal stimuli for a company wanting to take part in an international market. Delaney (1998) further lists up 12 qualities a leader should possess to succeed in a market where others have difficulties in succeeding (see page 33). Torkild Reinertsen seems to fit most of these qualities. When the other suppliers established themselves in Poland, he chose a different path, a path entirely new to the business. By taking the risk of moving into unchartered territory he has been innovative. He understands the cultural differences and tries to learn about the new culture, such as the language. His energetic personality has taken him up and down from Trondheim to Murmansk several times to solve different problems. It seems as though the establishment process in Russia is as important for him as the economic results. He says that he wants to gain friends and gladly travel to Russia. He seems very inspired in his work, and is an inspiring leader. Svein Grande said that he daily talks with Torkild Reinertsen, and that they had a good communication, something that seemed important and inspiring for Grande. When we visited Torkild Reinertsen in Trondheim, he took us for a tour in the working facilities. Where we entered we could clearly see that the workers lit up and became very enthusiastic when they talked to Torkild. Being the first Norwegian petroleum supplier taking the big step over the boarder to North West Russia, also shows that he is a man of great courage. It seems as if he likes to take risks and refuses to shy away in the face of troubles.

Involvement of the network

Statoil, a major Norwegian oil-company wanted to take part in the development of the fields in the Russian Barents Sea. It saw that assisting Norwegian supply companies in entering Russia could be favorable for gaining access as future development partners would be met by requirement to buy mostly Russian supplies. The help from Statoil has been important for Reinertsen's establishment and success. Wheelen and Hunger (1990) say that following a customer's internationalization process is an

important external stimulus when choosing a market. The incentives offered by Statoil to see a supplier establish itself in Russia undoubtedly played a role. Statoil financed parts of the employees' training, and the already existing initial contract with Fluor and Statoil guaranteed a steady cash flow in the first critical phases.

Statoil did not only play a role financially, but - argue the authors - also psychologically as they actively encouraged Reinertsen NWR's establishment. Reve et al. (1995) argue that a supplier and customer stand in a mutual relationship. The supplier forms in many cases integral parts of the customer's competence. Seeing the Statoil actively involve itself in the internationalization process is likely to have removed some uncertainties, also at the personal level, for the few main decision makers of Reinertsen AS. Also Hydro and Innovation Norway played roles in the establishment of Reinertsen NWR (Reinertsen, 2007). The same considerations can be applied to their support.

Timing

When Reinertsen chose to establish themselves in North West Russia in 2005, the timing was excellent. The national and global focus on the High North and on energy cooperation between Norway and Russia was strong. High oil prices led to increased global interest in the more unavailable arctic resources and the interest in developing inter-regional cooperation in the area was great. The regional ministries on both sides had heard much talk about the opportunities Norwegian companies wanted to take part in, but had seen very little action from the same companies. A willingness to act was welcomed.

Hurry (1994) claims that timing is essential for successful internationalization. Investments must happen at the right time and be of the right size in order to exploit anticipated future developments. Intsok stresses that the time for establishment was right as companies such as Sevmorneftegaz and Gazflot were establishing themselves in NWR. Becoming a part of the petroleum sub-supplier environment in front of the development of the petroleum fields is clever (Skretting, 2007).

Tangible Organizational Factors

Attractive Technology/Products

Torkild Reinertsen claims that in business, culture takes the back seat to the product. He clearly has a point. The Murmansk governor has himself stressed the importance of gaining access to Norwegian technology when developing Shtokman (Barentsobserver, 2007d). With their willingness to train local sub-suppliers (Reinertsen, 2007), Reinertsen NWR becomes an access point to this knowledge. This contributes to the perception that Reinertsen gives something back, and in turn to increased goodwill. This advantage becomes clearer taking Swahn's (2002) findings on suspicion towards money-makers and the fear of being used into consideration. Reinertsen NWR is not your average carpet maker taking advantage of poor Russian workers. It is a high-tech producer educating local employees and suppliers. And-mind this – they do not do it for charity, like some Statoil initiatives might resemble (Andvik, 2007), but already generate a profit, three years ahead of schedule.

Reinertsen NWR is as yet the only company in North-West Russia that delivers to the international oil and gas industry on a significant scale (Skretting, 2007). This technological advantage allows for time and resources to build the organization to meet future demands instead of being engaged in what often is a sign of a newcomer to a market; fierce price-competition.

Financial strength

To be able to establish themselves as fast and successfully as Reinertsen, their financial solidity has been of great importance. Read (2007) emphasizes that sufficient financial resources is of major importance in internationalization processes. The financial strength of Reinertsen AS has been crucial to tackle unexpected expenses in a business environment that sees contracts as a guideline rather than a set agreement and that is utterly unfamiliar with strict western budgeting routines (Swahn, 2002).

7.1.2. External factors (Location advantages)

The host country of the FDI must possess some kind of location advantages that favor FDI; otherwise the company would focus their resources (Ownership advantage) in their home market. The Location advantage is not transferable to other locations and is in other words immobile (Dunning, 2001).

Dunning divided Location specific advantages into three main groups (A, B, C):

(A) Access to and relative cost of production factors that can only be exploited by a company in a certain area:

Low wages

As the petroleum supply industry in Norway faced increased competition, Reinertsen and its competitors sought low cost countries to maintain competitiveness. Reinertsen NWR produces heavy steel constructions. The nature of these constructions and the fact that their construction is different from project to project makes them a labour intensive relatively low-tech product. Russia and Murmansk have highly educated and experienced workers which are cheaper to employ than their Norwegian equivalents. Høiby (2004) says that the average monthly salary for a worker in 2004 was RUR 6000, which is approximately NOK 1500. The average monthly salary for a Norwegian industry worker was at the same time NOK 25.000 (SSB, 2007). To be sure, although the Murmansk workforce had experience from similar work, substantial initial costs for training occurred and do, for that matter still occur. Nevertheless the wage difference plays an important positive role in the equation.

On the negative side, low-cost sub-supplies is not yet an advantage to Reinertsen NWR. On the contrary, Svein Grande says that being dependent upon importing much of supplies drives up costs to a considerable degree. Reinertsen showing willingness to train suppliers makes it likely however, that they will be able to source at least parts of their supplies from locals in the future.

Available and qualified labor

Another factor is the lack of manpower in Norway. Engineers and welders are much easier to recruit in Murmansk than in the soaring Norwegian economy. To

internationalize is thus the only feasible option for organic growth. Reinertsen's high technological working environment, using NASA interaction technology, makes it possible even for engineers to cooperate on projects between Murmansk, Oslo, Trondheim, Bergen and Gothenburg.

(B) Taxes and trade barriers

The history of Russia shows an unstable political and economical climate. Putin has since the year 2000 stabilized the economy and Reinertsen NWR operates in a relatively stable business climate today. Even though the major foreign energy companies have experienced problems in their Russian field developments there are no indications that their smaller suppliers will face the same problems.

Taxation advantages

With booming economic growth, FDI into Russia has seen a hike over the last few years. As long as a company operates within areas that are not seen as to be of direct strategic interest to Russia, they are generally allowed to do business as usual. And the profit potential has been great. In order to attract FDI companies are presented with different business incentives. The corporate tax level in Russia is generally lower than in Norway, ranging from minimum 20% to maximum 24% (Bagautdinov, 2007), which is an advantage compared to Norway.

Being on good terms with the bureaucracy

Russian bureaucracy is a major trade barrier. An abundance of rules and regulations and their far from consequent enforcers literally form a jungle for a newcomer. The common advice is to take on a partner (Haugland, 2004; Fadeev, 2007; Andvik, 2007) to cut through this jungle. Reinertsen NWR did not, wisely as we will show below, do that. Instead they built their own organization, employing among others their own accounting staff and logistics staff. They have in-house competence on issues that future competitors undeniably will struggle with. The goodwill from the governor was also a major advantage, and one shall not downplay the importance of being behind guarded fences to keep out eager public servants (Grande, 2007). In other words Reinertsen NWR has learnt to deal with the bureaucracy and is safely located behind a bureaucracy trade barrier that will face any newcomers to the market.

(C) Transportation costs and market access

A closeness in mentality between Norway and North-West Russia.

Establishing oneself in Murmansk not only provides a geographical proximity to Norway, but may also give the advantage of a lower psychological distance than in comparable regions such as St. Petersburg and Moscow. Murmansk has long experience in trading with Norway in fisheries (Høiby, 2004) and the regions in the North have established a broad network of cooperation within cultural and educational exchange and to a certain degree business establishments. Cultural elements might be learned through interaction with others in the cultures (Jandt, 2004). This has perhaps made it easier for Reinertsen NWR to adapt to the local culture and for the locals to adapt to Reinertsen NWR. These factors will make it easier for Reinertsen NWR to attract Russian customers and suppliers.

Relations to decision makers

On the downside it might be unfortunate to be located far from the powerbase Moscow and the technological capital St. Petersburg where the management of Russian field developments will be (Skretting, 2007). Still, it appears as if Reinertsen is on track with their proposal to possible Russian customers and their decision makers, especially seeing that they are a preferred neighbor to Gazprom-daughter Gazflot's Murmansk department (Reinertsen, 2007). Swahn (2002) emphasizes the importance of close relations when doing business in Russia. Looking at Haugland (2004) and other researchers from the network perspective of internationalization, Reinertsen NWR's opportunity to build relations with Gazflot are excellent: Reinertsen NWR is capable of producing tailor-made constructions for complex projects that requires close cooperation. Gazflot will be an integral part of such projects in North-West Russian developments. Who better to cooperate with than the neighbor?

Looking beyond Shtokman and North-West Russia

Even though Gazprom had not come to a final decision on Shtokman yet, Reinertsen did not wait for a final decision on the gigantic field. Read (2007) points out that sufficient strategic vision and motivation are factors which often drive an internationalization process. The plan and motivation for Reinertsen in the Russian

market was not only Gazprom and Shtokman. The western media have had an exaggerated focus on the two (Skretting, 2007). Reinertsen sees that Russia offers many other opportunities as well (Reinertsen, 2007). Both Russian and foreign majors such as Lukoil, Rosneft, TNK-BP and Conoco Phillips are developing both on and offshore fields in the Arctic and elsewhere. Several offshore areas such as Prirazlomnoye, Sakhalin and the Caspian Sea are under construction, and several other areas might come before or in addition to Shtokman. The experience from the Prirazlomnoye field shows that Norwegian companies specialized in offshore technology and maritime operations have a considerable market (Barlindhaug, 2006). The lack of Russian offshore experience is illustrated by Intsok in figure 18. Where the Russian cluster lacked experience, figure 16 shows that the Norwegian cluster is well developed.

North-West Russia is an exiting region which presents more than just a low-cost labour advantage to Reinertsen NWR. The company is located in one of the most promising energy regions in Russia Andersen (1993) stresses the importance of investing in a foreign market on a foundation of knowledge and experience from the market, and that no other alternative investments which will be more profitable exist. Given Reinertsen's long term thinking, Poland and the Baltic did not seem as interesting and profitable in the way Russia and Murmansk did. Torkild Reinertsen has a longer perspective than five or then years in his planning. Even tough it is hard to predict what will happen in ten or twenty years, they are taking into consideration that they will be located in Murmansk for a long time.

It is likely that also future oil and gas will be subject to similar quota criteria as for instance the Prirazlomnoye development where 70% of deliveries had to come from Russia (Skretting, 2007) and when possible, from local companies. Reinertsen NWR, being a Russian company, will thus be in an excellent position to participate in upcoming Russian oil and gas projects. Taking the need for investment in the Russian oil and gas sector into consideration (Skretting, 2007), the need for Reinertsen's services will be very much present.

7.1.3. Internalization factors

The obvious reason for a MNC to internalize its efforts in another market is to maintain control. Two strings of theory are particularly important within the internalization literature. Transaction cost theory focuses on the flow of information from the market to a company and the flow of information within a MNC, and the difference in cost between internal and external sources. The principal-agent theory focuses on the relationship between partners in a business relationship.

When Reinertsen AS decided to enter Russia they had, in theory, several different entry-mode options to choose from. Root (1994) identifies three different methods of entry: 1: The contractual mode. 2: The export mode. 3: The investment mode. Since the Russian market was not a target in the first phases of the establishment, the export mode was out of the question. Then they were largely left with two alternatives: Either some sort of contractual agreement involving transfer of technology and competences to a foreign partner in exchange for compensation, or the creation of a subsidiary. The motives behind the internationalization process would determine this decision. We remember that Reinertsen had been awarded a contract with Statoil, a customer with which they have a long history, to construct parts of a compressor plant. The production was supposed to take place in a low-cost country. Meeting a strict deadline and complying with construction specifications was crucial, and the deadline was not far away in time. In reality Reinertsen had no time to find a suitable contractual partner that would be approved by Statoil, train the partner and monitor him.

FDI was thus the only feasible option left. Now Reinertsen faced a choice between establishing a new company and buying one – in cooperation with a partner or not. In order to speed up the establishment process, an existing "empty" company (a shelf company) was bought. Despite the reluctance to take on a partner they were forced to take on a minority interest since access to production facilities was barred. Once the Russian minority partner was admitted aboard he pulled some strings and production facilities were all of a sudden available. This can be seen as supporting the notion that a Russian partner can be advantageous in terms of cutting through the bureaucratic

jungle (Andvik, 2007; Fadeev, 2007). As the authors see it, it is yet another token of how generally corrupt Russian business is.

Maintaining control

Both President Reinertsen and Director Suul say that their motivation for choosing FDI as an entry form was to maintain control over risks. The principal-agent theory argues that a motivation for internalization of activities is to maintain control since it can prove difficult to align a foreign agent's interests with those of the principal company (Norman, 2001). Had Reinertsen decided for instance to license production they would face the threat that the partner would use its superior local knowledge to act opportunistically on Reinertsen's expense. Taking Swahn's (2002) and Hofstede's (2007) findings on cultural differences into consideration, the likelihood of a culture crash would have been very large: Swahn (2002) finds Russians to be short-term oriented, motivated on a personal and often emotional level, not very contract-bound, suspicious towards foreigners and with little business competence. Norwegians on the other hand are seen as concerned with literally complying with a contract, being motivated by responsibility, naive and maintaining a divide between the professional and private spheres. Hofstede's (2007) five cultural dimensions (see table 1) applied to Russia and Norway also present an image of cultures that in many areas are different. The risk of alienation is considerable, and it is in the author's opinion easier to act opportunistically towards someone one does not know or understand very well, diminishing the chances of a successful principal-agent or partner relationship. This is further supported by Barringer & Harrison (2000) and Day (1995) finding that the major part of co operations failed before the realization of expectations. Consequently we argue that maintaining as much control over the subsidiary as possible, and getting rid of the minority interest as soon as possible was a success factor.

Keeping it in the family

Reinertsen NWR's establishment was to a large degree knowledge driven. Reinertsen AS is one of Norway's largest petroleum sub-suppliers and it would not have been in a position to establish production in Russia without experience and competence gained over year's activity in the petroleum sector. The transaction cost theory argues that transfer of knowledge is easier within a MNC than between market actors (Buckley and Casson, 1976). The market for knowledge is described as imperfect due

to bargaining problems, pricing difficulties and buyer uncertainty (Buckley and Casson, 1976). If we also add Swahn's (2002) cultural dimension to the picture, knowing Russians to be generally skeptical towards foreign business ventures, it would indeed have been difficult for Reinertsen AS to license knowledge and technology to Russia on preferable terms. Torkild Reinertsen's comments on lack of knowledge are similar to Swahn's remarks in claiming that Russian businessmen have little knowledge on commercial procedures. Bargaining with a Russian partner on the pricing of licensed foreign technology would have been difficult. Thus internalizing the knowledge transfer completely was another factor contributing to success.

A good reputation

Another aspect is the value of being present and visible in a market. Norman (2001) mentions that internalization is a preferred strategy when reputational effects are strong. They certainly are in Russia: Hofstede (2007) argues that uncertainty avoidance among Russians is high. Swahn (2002) says Russians are suspicious towards foreigners. Hønneland (2006) emphasize the importance of being a known actor with the right connections. Had Reinertsen not been so determined to have their own sign on the wall of their plant, the positive reputational effects of having the governor open their plant, would have been strongly diminished. As of today Reinertsen enjoys considerable goodwill from the local community. Gazflot also expressed a positive attitude towards their future neighbors Reinertsen NWR (Reinertsen, 2007; Grande, 2007). We accordingly argue that being present and in Torkild Reinertsen's words "creating a positive attitude" has been a success factor.

"Bringing along" suppliers and customers

One disadvantage of internalizing the internationalization process is that a company may be discriminated in a foreign market (Buckley and Casson, 1976). In the case Reinertsen NWR that was not relevant, as they were in the early phases virtually independent of both Russian suppliers and the Russian market. Very little project-approved supplies were locally available and their customers so far have all been Norwegian (Suul, 2007). It was actually pretty ingenious to enter the market directly, taking advantage of some Location advantages, at the same time being in a position that allowed delaying the resource- and time consuming processes of attracting

customers and developing qualified suppliers. Resources were freed to focus on streamlining operations.

Communication between corporate management, operative management and operators.

Language and cultural barriers are mentioned as another obstacle (Buckley and Casson, 1976). Torkild Reinertsen plays down the importance of culture. He says that Svein Grande's most important function is as a language-carrier, not a cultural-carrier. We disagree however, believing that Grande's description of his management technique as "Norwegian, adapted to Russia" reveals one of his most important functions in the company. Besides knowing both languages he knows both cultures, and is therefore in a unique position to be a cultural-carrier not only of Norwegian culture towards the employees at Reinertsen NWR, but also of Russian culture towards Reinertsen AS' management, thereby decreasing the transaction costs or communication costs posed by the risk of misunderstanding between strategic and operative management and employees.

This argument is underpinned by Rugman and Verbeke's (2002) emphasis on the importance of two-way information flow. They also mention, as do Buckley and Casson (1976) that communication costs are still significant despite of the communication flow being internalized. They identify a high volume of accounting and control information, large overhead costs due to specially adapted communication systems and the need to check the accuracy of the information provided by subsidiary managers as drivers of communication costs (Buckley and Casson (1976). Despite Reinertsen being a large company, President and co-owner Torkild Reinertsen is very much involved in the daily operations. He talks to subsidiary manager Svein Grande every day and pays regular visits to Murmansk. One can argue that Torkild Reinertsen's time is costlier than most people, but the authors believe that his hands-on approach in monitoring Reinertsen NWR significantly contributes to reducing communication costs. These communication costs can be derived from misunderstandings, hostility across the hierarchy and failure to make decisions in time. Avoiding these costs represents another success factor for Reinertsen NWR's establishment.

7.2. Summary

The analysis shows some overlap in regards of the theoretical separation. That is as expected. Reality is complex and it is difficult to set up waterproof bulkheads to separate different aspects of a process in terms of what are internal factors and external factors, and factors pertaining to internalization of processes. Nevertheless, the analysis sheds light on several different factors, some of them more unexpected than others, that have been welded together to form a successful establishment.

We refrain here from analyzing the analysis. Instead we want to point out a few things. Some of the discussed factors, such as the successful position that was achieved, will play a larger part in the future, as Reinertsen NWR gains more suppliers and customers locally and within Russia. Some factors played a larger part initially, such as Statoil's help, avoiding a partner and separating business from the local market conditions. Most of the factors have played and will continue to play role.

What we want to point out, that is easily transferable to other similar situations, is the importance of an involved top management, good communication schemes, to avoid opportunistic partners and finally – thinking long-term. What is perhaps not so easily transferable is Reinertsen AS' solid financial foundation and the network and experience it leaned on during the internationalization process.

Woody Allen once said: *"Eighty percent of success is showing up"*. Reinertsen NWR showed up at a right time. With the competition barely out off the starting blocks, the company is well under way in the race: The race for future petroleum developments in Russia.

Further research issues

The energy cooperation between Norway and Russia will most certainly blossom in the next years. Companies will hopefully follow Reinertsen by walking the walk and not just talking the talk. When Dr. Vitaly Klitchko (popularly known as Dr. Ironfist), a Ukrainian politician, scholar and former heavyweight boxing champion was asked what he thought about chess, he answered: *"Chess is similar to boxing. You need to develop a strategy, and you need to think two or three steps ahead about what your opponent is doing. You have to be smart. But what's the difference between chess and boxing? In chess, nobody is an expert, but everybody plays. In boxing everybody is an expert, but nobody fights."*

Reinertsen NWR has now started on the next round in the Russian “ring”; gaining Russian customers. This process would be an interesting field of study. So would the impact of differences in business culture on conducting business between the countries. As discovered in this research, the role of the leader played an important part. Research on that topic is suggested, as well as how to minimize risk in choice of partner.

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Index

Appendixes

Interview Guide

Let the conversation flow smoothly. Do not ask questions, unless a certain issue has not been covered in the course of the conversation.

Internal factors

Why did Reinertsen as choose to internationalize?

Did Reinertsen AS have any prior experience from internationalization processes?

Why did you choose Russia? What were the other alternatives?

What characterized the preparations for the internationalization process?

How did you proceed to gain market knowledge? General and specific knowledge.

What role did your network play initially. How important was the network?

Who is involved in decision-making processes and who makes the final calls?

What has been important in the phases following the establishment?

External factors

What is in you opinion the greatest risk factors for doing business in Russia.

Have you used any form of external competence, like consultants to map market, country conditions?

What characterizes your relationship to especially Gazprom and other potential Russian customers?

What is the focus for your establishment? (Only Shtokman?)

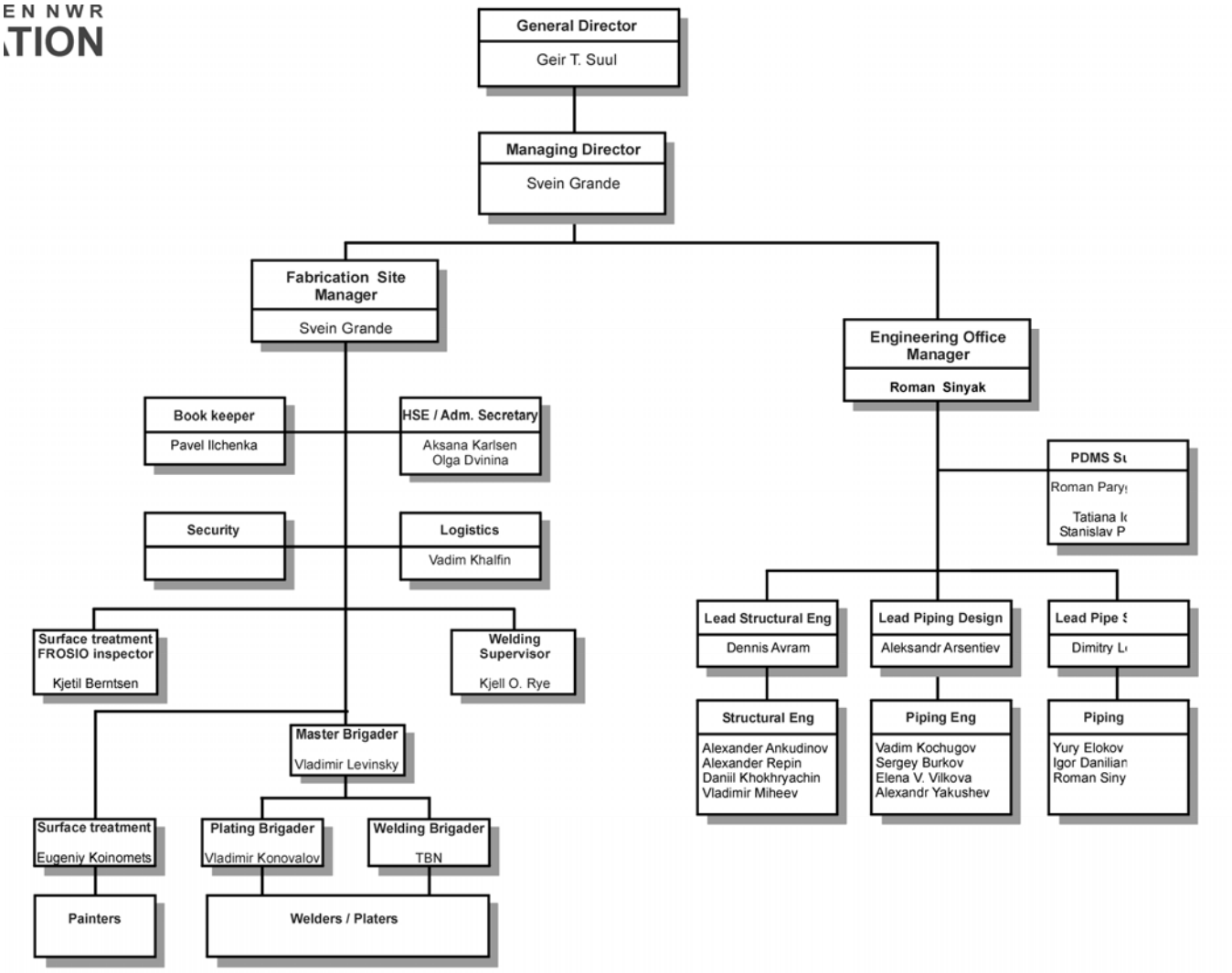
Internalization factors

Why did you choose to take on a Russian partner?

Why did you choose to end this relationship?

What were your entry options?

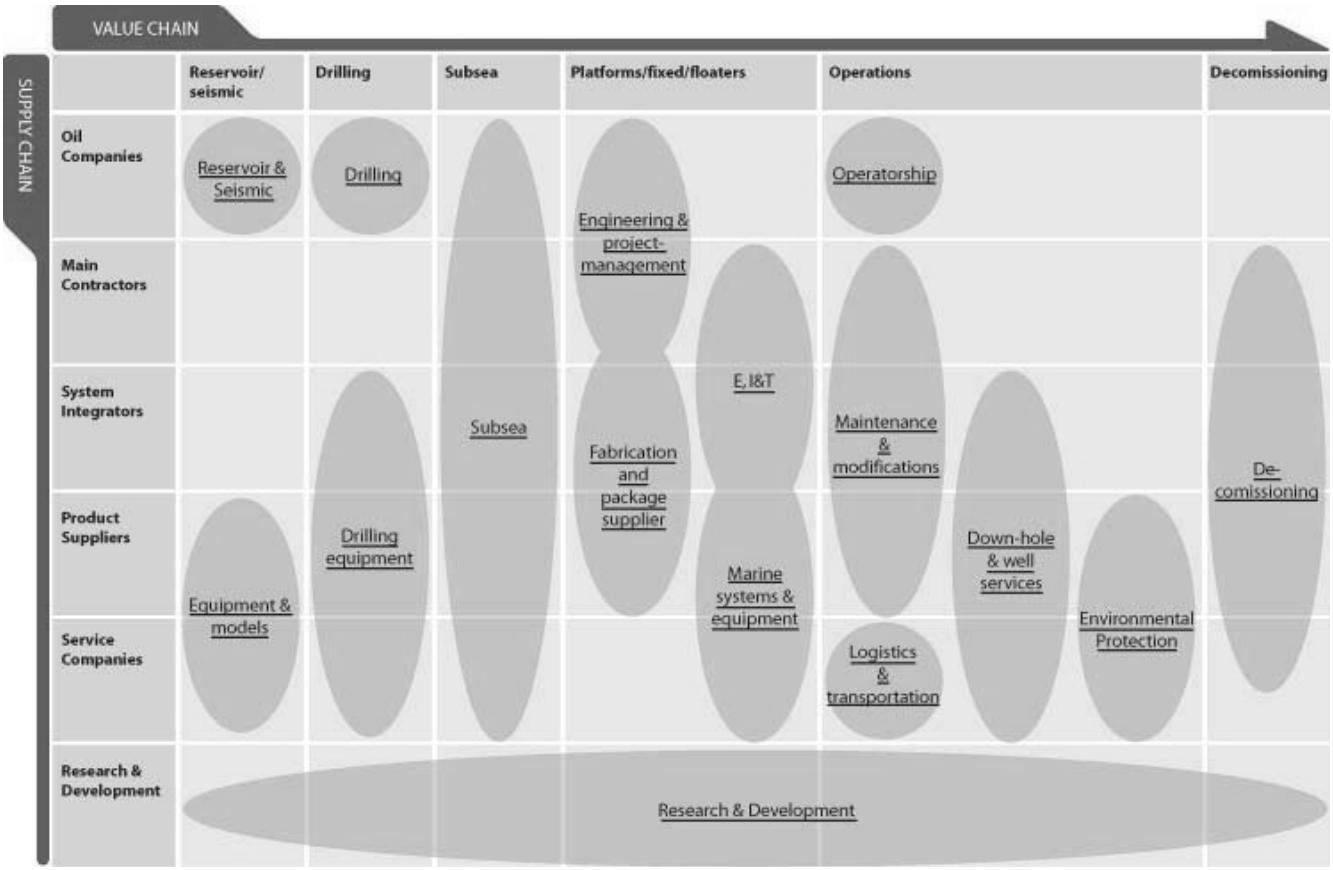
Why did you choose to enter the market so decisively (NOK 50 million)?

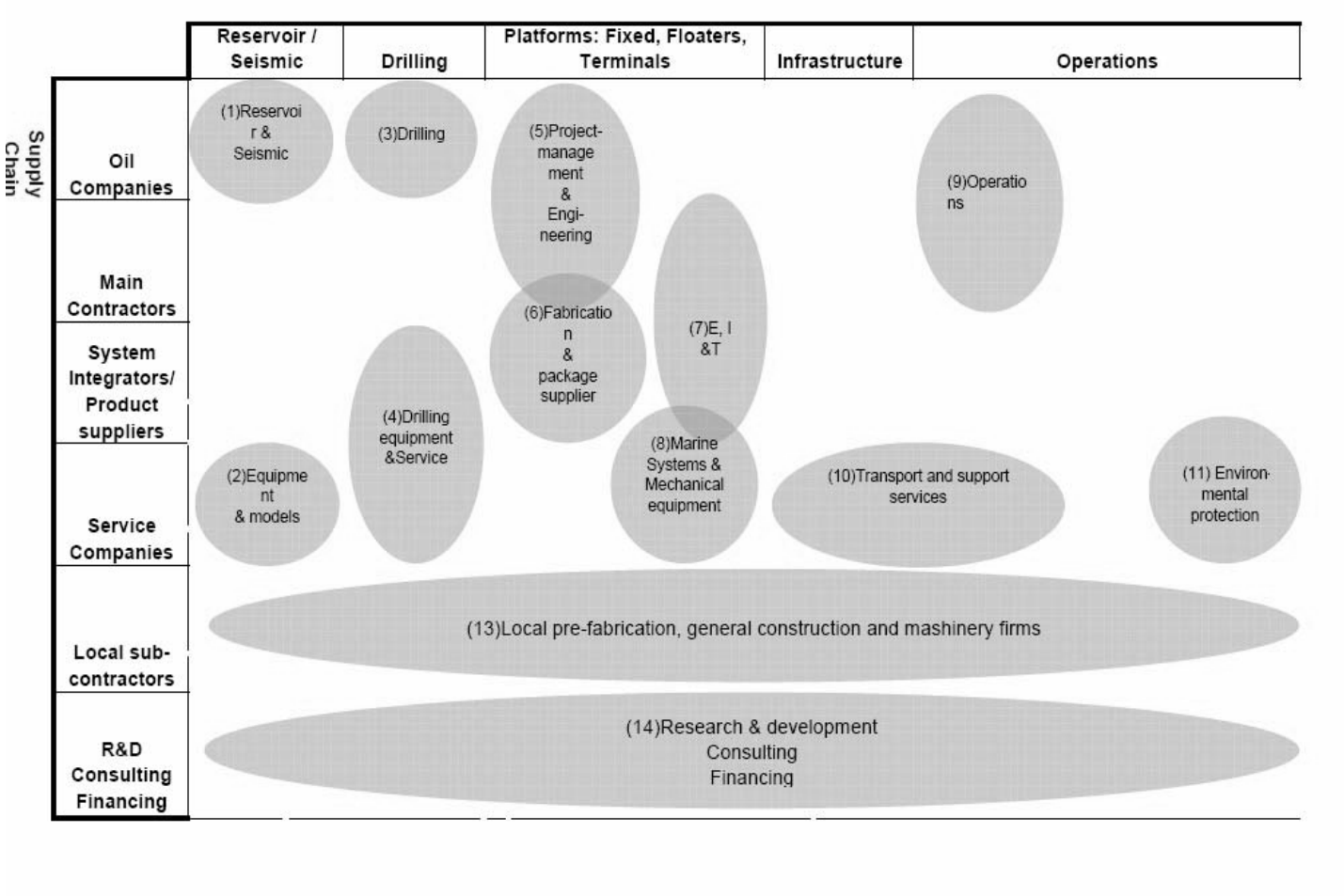

EN NWR
ATION
General Director
Geir T. Suul
Managing Director
Svein Grande
Fabrication Site Manager
Svein Grande
Engineering Office Manager
Roman Sinyak
Book keeper
Pavel Ilchenka
HSE / Adm. Secretary
Aksana Karlsen
Olga Dvinina
PDMS Su
Roman Pary
Tatiana I
Stanislav P
Security
Logistics
Vadim Khalfin
Surface treatment FROSIO inspector
Kjetil Berntsen
Welding Supervisor
Kjell O. Rye
Lead Structural Eng
Dennis Avram
Lead Piping Design
Aleksandr Arsentiev
Lead Pipe S
Dimitry L
Master Brigader
Vladimir Levinsky
Structural Eng
Alexander Ankudinov
Alexander Repin
Daniil Khokhryachin
Vladimir Miheev
Piping Eng
Vadim Kochugov
Sergey Burkov
Elena V. Vilkova
Alexandr Yakushev
Piping
Yury Elokov
Igor Danilian
Roman Siny
Surface treatment
Eugeniy Koinomets
Plating Brigader
Vladimir Konovalov
Welding Brigader
TBN
Painters
Welders / Platers

Project	Client	Description
Kollsnes compressor building	Fluor / Statoil	500 tonnes steel structures prefabrication for compressor building constructed at Kollsnes
Ormen Lange – subsea anchors	Norsk Hydro	22 subsea anchors to be used as anchor points during pipelay. Total weight approx 350 tonnes
Steel structures for Blussuvoll School	Reinertsen	100 tonnes of structural steel prefabricated for School building constructed in Trondheim
Steel structures for State Archive, Trondheim	Reinertsen	150 tonnes of structural steel prefabricated for office building constructed in Trondheim
Oseberg Delta	Norsk Hydro	85 tonnes prefabrication of structural steel elements for installation on Oseberg Field center
Odd stadion	Reinertsen	200 tonnes of structural steel prefabrication for Football stadium grandstand in Skien, Norway

Følgende prosjekter er under utførelse:

Heimdal New Power Generator	Norsk Hydro	225 tonnes Prefabrication of all structural steel elements in Power Generator Module for installation on the Heimdal Plattform.
Tyrihans	Statoil	200 tonnes Prefabrication of all structural steel elements in Manifold Module for installation on the Kristin Plattform.
Alve Subsea Structure	FMC	180 tonnes Prefabrication of structural steel elements for Subsea Protection Structure, assembly at Orkanger, Norway
Sigrid Subsea Structure	FMC	220 tonnes Prefabrication and assembly of complete Subsea Protection Structure
IFI (University of Oslo)	Reinertsen	500 tonnes steel structures prefabrication for university building constructed in Oslo


VALUE CHAIN
SUPPLY CHAIN
Reservoir/ seismic
Drilling
Subsea
Platforms/fixed/floaters
Operations
Decomissioning
Oil Companies
Main Contractors
System Integrators
Product Suppliers
Service Companies
Research & Development
Reservoir & Seismic
Drilling
Engineering & project-management
Operatorship
E, I&T
Subsea
Fabrication and package supplier
Maintenance & modifications
De-comissioning
Drilling equipment
Down-hole & well services
Equipment & models
Marine systems & equipment
Environmental Protection
Logistics & transportation
Research & Development


Supply Chain
Reservoir / Seismic
Drilling
Platforms: Fixed, Floaters, Terminals
Infrastructure
Operations
Oil Companies
Main Contractors
System Integrators/ Product suppliers
Service Companies
Local sub-contractors
R&D Consulting Financing
(1)Reservoir & Seismic
(3)Drilling
(5)Project-management & Engi-neering
(9)Operations
(6)Fabrication & package supplier
(7)E, I &T
(4)Drilling equipment &Service
(8)Marine Systems & Mechanical equipment
(2)Equipment & models
(10)Transport and support services
(11) Environmental protection
(13)Local pre-fabrication, general construction and mashinery firms
(14)Research & development
Consulting
Financing