Russia, a fast-changing market - An approach to meet recent and upcoming business-impacting changes properly, exemplified by the medical technical sector.

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Abstract

Since the collapse of the Soviet Union and especially during the last decade, a multitude of changes and reforms affecting the business environment of the Russian Federation were observable. This thesis discusses already existing findings and theories dealing with business-impacting changes in the Russian market and investigates their impact on companies operating in the medical technical sector. Moreover, it is examined to what extent networks serve as a mediator between recent and upcoming business-impacting changes and medical device companies. For this purpose, an explanatory multiple case study is conducted which comprises two cases of medical technical companies as well as two institutions which are very familiar with the Russian market. The empirical analysis is based on a framework which summarizes in literature identified business-impacting changes. These are the membership of the WTO, the increasing overall wealth of the Russian population, different political programs to fight corruption and to decrease the extent of bureaucracy as well as various kinds of health care reforms which are launched to deal with the poor health care outcomes of the Russian Federation. Contrary to findings in literature, it is found that the WTO membership as well as the launch of different political programs has no notable impact on companies operating in the medical technical sector. Different health care reforms and an increasing overall wealth of the Russian population, on the other hand, have positive impacts on the demand for medical device products. Moreover, access to well-established networks in the Russian market is a possibility for medical device producers to evaluate the actual effect of business-impacting changes and to initiate corresponding activities. It was found that a clear distinction between different kinds of networks, such as business and social networks, cannot be clearly made for the case of the Russian market.

Keywords: Recent and upcoming business-impacting changes, Russian Federation, WTO membership, medical technical sector, networks.
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1. Introduction

The occurrence and effectiveness of reforms and recent changes affecting the business environment of the Russian Federation are of considerable research interest (Ahrend & Tompson, 2005; Besstremyannaya, 2009; Marquez, Atun, Tompson, & Salakhutdinova, 2008). Although various publications pick out recent and further possible approaches to lower limitations of doing business in the Russian market as their central theme (Aidis & Adachi, 2007; Alon & Banai, 2000; Johanson & Johanson, 2006; Roberts, 2005), a research gap has been identified. To this point there is insufficient knowledge available of the way recent and upcoming business-impacting changes influence companies operating in the Russian medical technical sector and the role that networks assumedly have to deal properly with these changes. This thesis focuses on companies operating in the medical technical sector as a result that recent and upcoming reforms are likely to considerably increase the demand for medical device products within the Russian Federation (Global Impact Solutions, 2012; Swecare, 2010). In conjunction with further business-impacting changes discussed in this thesis, it is likely that the Russian market offers a promising return on investment for medical technical companies. Apart from reforms, various authors highlight that well-established networks are a crucial determinant for firms that want to successfully do business in the Russian market (Aidis, Estrin, & Mickiewicz, 2008; Batjargal, 2006). This thesis investigates to what extent networks serve as a mediator between recent and upcoming business-impacting changes and companies operating in the medical technical sector. For this purpose, it is analyzed in what way current theories and findings dealing with networking in general and in the Russian Federation in particular can be applied to companies operating in the Russian medical technical sector.

Section 1.1 points out the necessity and relevance of recent and upcoming business-impacting changes in the Russian Federation. Moreover, their influence on the prospective performance of foreign and domestic firms operating in the Russian market is described. Following this, the research questions and objectives of this thesis are presented. Section 1.2 illustrates the structure taken as a basis to develop the thesis and close the previously introduced research gap.

1.1 Relevance and Purpose

In terms of geographic size, the Russian Federation is the largest country in the world and its economy has considerable influence on the global economy (Aidis & Adachi, 2007; Railean, 2011). The ALT Research and Consulting Company (2008) stresses the size of the Russian market and its fast growing business environment in order to highlight the attractiveness for foreign firms to join this particular market. The average growth in GDP was as high as 5.4% during the last decade within the Russian Federation (World Bank, 2012), resulting in higher incomes of its population (Mroz & Popkin, 1995). Moreover, modernization processes have provided large urban areas with an increased standard of living as the Russian lifestyles move

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1 The following definition describes the perception of “successfully doing business” which is underlying for this thesis: “A successful business is one that produces a very acceptable return on the assets employed, is positioned for continuing market support and which keeps on running well without depending the owner to be in daily attendance” (Advantage Business, 2006).
1. Introduction


Although the previously mentioned changes are in progress, the number of new firms joining the Russian market is comparatively low. A considerable number of barriers and limitations affect not only the way of doing business but also further development and growth of companies in the Russian market (Aidis & Adachi, 2007; Devan, Gregory, Lopez Claros, & Solf, 2011; Jensen, Rutherford, & Tarr, 2007; Mendelsohn, 1996). Examples of these barriers include institutional barriers, regulation problems, illegal business practices and monopolies on government-owned companies. In addition, a high level of uncertainty due to a lack of enforced rules and laws influences the growth of companies in the Russian market (Devan et al., 2011). The enforcement of laws is performed arbitrarily, thus, firms cannot resort to legal measures. The uncertainty is intensified by an excess of unclear regulations and random inspections of companies with often dubious outcomes (Aidis & Adachi, 2007). Gel’man (2004) characterizes the legal environment of the Russian Federation as corrupt and malfunctioning. Moreover, Aidis and Adachi (2007) as well as Anttonen, Tuunanen and Alon (2005) state that the avoidance of illegal business practices such as bribery and corruption during operations in the Russian market is nearly impossible. Thus, companies which operate according to western-oriented business principles face major obstacles to overcome these barriers. Consequences of the previously mentioned trade barriers and their effect on the business environment of the Russian Federation are manifold: there is little competitive pressure from outside due to considerable entry barriers. Moreover, innovative products and processes hardly have a chance to survive. This leads to a situation in which the Russian Federation is still highly dependent on oil and gas extraction as their main industry sector (OECD, 2011). Not every company is willing to adapt their business practices within the Russian market as required, especially if this includes giving up ethical principles. One example is the Getinge Group whose business activities are closer examined in this thesis (Getinge, 2012).

Another example for a foreign company that previously struggled with the before mentioned barriers is the Swedish home products company IKEA. After opening of a handful of retail stores in Russia’s larger cities, IKEA stopped further investments in the Russian market in 2009. This behavior can be attributed to high import duties, corruption and bribery as well as the absence of networks which could have helped to overcome burdens through knowledge sharing (Jonsson, 2008; Jonsson & Elg, 2006). Not only foreign firms but also domestic Russian companies, like the largest and once most successful oil producer Yukos, were facing many obstacles while doing business in the Russian market (Puffer & McCarthy, 2007). In the case of Yukos, which was accused of tax invasion by the Russian government, courts declared the company bankrupt after the oil producer was not able to pay alleged debts. It was well known by the public that the main reason for shutting down Yukos was the political involvement of its founder Mikhail Khodorkovsky as an opposition leader (Aidis & Adachi, 2007; Puffer & McCarthy, 2007).

Recent events suggest that the previously mentioned cases will not repeat to the same extent thanks to recent and upcoming business-impacting changes which affect the Russian business
environment (Ahrend, 2006; Jensen et al., 2007; Radaev, 2002). The most recent development is Russia’s accession to the World Trade Organization (in the following WTO) after 18 years of negotiations (Jensen et al., 2007). The WTO regulates multilateral trade issues through international trade conventions which are binding for all members (Åslund, 2010). The membership indicates a first step towards an open Russian market economy. Moreover, foreign direct investments are likely to be supported since the Russian Federation must comply with the rules of world trade after becoming a member of the WTO. Russia’s objective regarding this membership is to become a more diversified and knowledge-based economy (Åslund, 2010; Jensen et al., 2007). In addition, not only is the variety of national and international trading transactions likely to increase but also competition between market participants (Jensen et al., 2007). In order to further facilitate the way of doing business in the Russian Federation, different political programs to fight corruption (Babich, 2008) and reduce bureaucracy (Druzhinin, 2010) were recently launched.

Empirical evidence indicates that economic growth promotes improvements in health statuses within a thriving country’s population (Bloom & Canning, 2000; Marquez et al., 2008; Tkatchenko, McKee, & Tsouros, 2000). The opposite holds true: an improved health status has positive effects on economic productivity and growth (Marquez et al., 2008). However, this association is not found in the case of the Russian Federation due to a crises in health and mortality it has had to deal with for more than two decades (Besstremyannaya, 2009; Gordeev, Pavlova, & Groot, 2010). Reasons for this health crisis are not primarily reflected in the health care system itself but in the intensified consumption of alcohol and tobacco and the increased incidence of unhealthy diets as well as a general environmental deterioration. Russia’s health care system is unable to cope with the outcomes due to its fragmented administrative organization and its underfunded health care sector (Railean, 2011; Tompson, 2007). The implementation of various health care reforms and projects, for example the “National Project Health” in 2006, are approaches to deal with the health care crisis and to promote the economic growth of the country (Besstremyannaya, 2009; Shishkin, 1998). In search of further improvements, Marquez et al. (2008) identify that the current hospital infrastructure of the Russian Federation is too expensive and does not meet current and future needs. Not only the quality but also the productivity of hospitals could be increased through further investments and an efficient use of new medical devices produced by foreign medical technical companies.

The members of the Getinge Group provide medical technical solutions and aim to increase their presence and market share in the Russian Federation (Getinge, 2012). It is likely that this objective is promoted because of the previously introduced changes. The Getinge Group is a leading global medical technology provider of equipment, systems and solutions which contributes to quality enhancement and cost efficiency in the health care sector. Their products provide solutions for enhancements in the hospital sector which are needed in the Russian Federation (Getinge Group HP, 2012). Nevertheless, access to the Russian market is until now limited by the barriers and limitations mentioned above (Getinge, 2012). Moreover, the lack of competitive pressure increases difficulties to compete with price levels of local manufactures (Jensen et al., 2007). So far it is not sufficiently analyzed how recent and upcoming business-impacting changes and health care reforms in the Russian Federation...
affect companies operating in the medical technical sector. Based on previous findings, the first research question is deducted as: **How do recent and upcoming business-impacting changes within the Russian market affect companies operating in the medical sector?** Several investigations show that an establishment of and the presence in Russian networks is a crucial element for successfully doing business in the Russian market. Networks serve as a mediator between both tangible and intangible resources and companies. Intangible resources include information about changes and reforms which have an impact on the Russian business environment (Aidis & Adachi, 2007; Barkhatova, 2000; Radaev, 2002). This leads to the second research question: **How can networks support firms in the medical technical sector to confidently deal with recent and upcoming business-impacting changes within the Russian market?**

In order to provide answers to the presented research questions, two main purposes for this thesis are formulated in the following. The **first purpose** is the derivation of an analysis framework. This framework provides an overview about relevant recent and upcoming business-impacting changes on a theoretical basis and discusses the role of networks as a mediator between crucial information and companies operating in the Russian market. The **second purpose** is to empirically examine the two research questions wherefore two decentralized acting members of the Getinge Group as well as two related institutions are interviewed.

### 1.2 Structure of the Thesis

This thesis is structured as follows: **Chapter 1** presents the relevance and purpose of this thesis. Based on this, the framework for an empirical analysis is going to be developed out of findings relevant to understand the research focus in **Chapter 2**. As a first step, limitations of doing business in the Russian Federation are introduced in order to show the necessity of essential changes as well as of the launch of different political programs (section 2.1). After this, it is discussed why not only previously mentioned limitations constrain the economic growth of the Russian Federation but also the health care crisis of the country (section 2.2). Health care reforms launched to deal with this crisis are likely to have a positive impact on the Russian medical technical sector which is introduced in section 2.3. The importance of networks for successfully doing business in the Russian Federation is discussed in section 2.4. By summarizing previously named findings, a framework for the empirical analysis is developed in section 2.5. This framework outlines assumptions and a theoretical background for the two research questions.

**Chapter 3** introduces the methodology taken as a basis for the empirical analysis. In a first step, the link between theory and the practical knowledge is discussed in section 3.1. Afterwards, the research strategy (section 3.2) and the research design (section 3.3) of this thesis are presented. Based on this, important findings and conclusions of case study methodology are introduced in section 3.4, as a second step. The scientific quality of the gathered data is evaluated in section 3.5 while the approach to analyze this data is presented in section 3.6.

The empirical analysis is conducted in **chapter 4**. The analysis of the case-support interviews (section 4.1) is followed by the examination of the case companies Arjohuntleigh (section 4.2)
and Getinge (section 4.3). Similar to the approach of the research question development, the sections are subdivided into two parts. Firstly, the impact of recent and upcoming business-impacting changes which affect companies operating in the medical technical sector is analyzed. Secondly, the role of networks as a mediator between information about business-impacting changes and medical technical companies is investigated.

The conclusions in chapter 5 summarizes and discusses the empirical findings (section 5.1). Moreover, the resulting implications for marketing theory and practice are derived (section 5.2). As a last point, limitations and future research related to this thesis are pointed out (section 5.3).

2. Development of a Framework

The objective of this chapter is to provide necessary information needed to get a deeper background understanding of the previously discussed research questions and therewith, the research focus of this thesis. Afterwards, a framework which is the foundation of the empirical analysis is developed based on the discussed topics and findings. The presented findings in this chapter can, if not indicated otherwise, generally be applied to diverse industries while the empirical analysis applies important findings on companies operating in the medical technical sector in particular.

Economic development and growth of countries are highly influenced by their business environment and health care status of their population (Marquez et al., 2008; OECD, 2011; Tompson, 2007). In the following, both factors are analyzed for the case of the Russian Federation. Different aspects which currently constrain the way of doing business and consequently raise demand for various reforms are presented in section 2.1. The most important dimensions of the Russian health care system and its impact on the Russian economy are presented in section 2.2. Moreover, the most relevant information concerning the medical technical sector in the Russian Federation are introduced in section 2.3. In order to get deeper insights of the second research question, the networking theory is presented in section 2.4, followed by the deducted framework (section 2.5) which combines the previously gathered findings.

2.1 Doing Business in the Russian Federation Today and in the Future

The way of doing business in the Russian Federation is currently heavily influenced and constrained by a corrupt and malfunctioning business environment (Gel'man, 2004). Limitations which prevent companies to successfully do business within the market should not be underestimated and can be summarized under the term trade barriers (Aidis & Adachi, 2007; Makeyenko, Gabrielian, & Holzer, 1999). Per definition “trade barriers are national laws, regulation and other measures that obstruct or impede international trade without adequate legal justification” (Maclean, 2006, p. 1). These barriers can be distinguished between tariff and nontariff trade barriers (Sumner, Smith & Rosson, 2001). The former ones describe different kinds of customs and duties imposed on companies that target to conduct business in a foreign economy (Jones & Walkenhorst, 2003; Sumner et al., 2001). Non tariff trade barriers are any governmental devices or practices, other than a tariff, which directly
impede or discriminate imports and distort international trade. These barriers are almost exclusively imposed on foreign companies while the impact on domestic production and distribution is low (Hillman, 1996). The grade of legality of these barriers is measured with reference to international standards like those implemented by the WTO (Maclean, 2006).

In the Russian Federation both kinds of trade barriers have negative influences on the growth of private sectors what results in imbalances of payments, supply and demand patterns as well as international relations (B2Bwhiteboard, 2011). A private sector requires a regulatory environment that embraces competitors from outside. Their promising innovations bring both additional capital and new job opportunities to a country and increase the overall wealth (Devan et al., 2011). In the case of the Russian Federation, the previously introduced effect is limited due to the fact that the number of new firms entering the Russian market is comparatively low (Aidis & Adachi, 2007; Jensen et al., 2007). Thus, the Russian Federation is still highly dependent on oil and gas extraction (OECD, 2011).

In the following, both tariff and nontariff trade barriers which influence the decision of foreign firms whether to participate in the Russian market are presented in order to give an overview of its complexity and main characteristics. These barriers are divided into official federal institutional trade barriers (section 2.1.1) and more unofficial barriers which are not covered by the legal framework of the Russian Federation (section 2.1.2). Afterwards, recent and upcoming business-impacting changes are introduced as a measure of the Russian government to stimulate foreign direct investments in the near future and to outbalance the situation of the private sector (section 2.1.3). All of is these findings are likely to have currently and in the future an impact on companies of various industries within the Russian market. The empirical analysis of this thesis investigates the impact on firms operating in the medical technology sector in particular.

2.1.1 Federal Institutional Trade Barriers

Most of the identified federal institutional trade barriers are related to the extent of bureaucracy within the Russian Federation. In general, bureaucracy is an essential and underlying element to ensure the effectiveness and structure of e.g. organizations, companies and political systems, but it is important to adhere a rational degree of bureaucracy in all areas of economic life (Ryavec, 2003). However, the extent of bureaucracy in the case of Russian Federation exceeds by far a rational degree (Aidis & Adachi, 2007; Devan et al., 2011; Makeyenko et al., 1999).

The Russian Federation has in comparison the most extensive history of bureaucracy dating back to the 18th century (Ernst & Young, 2011; Safavian, Graham & Gonzalez-Vega, 2001). While the former Soviet bureaucratic system was characterized as centralized and hierarchically, the present bureaucracy in the Russian Federation is complex and difficult to understand. Various administrative layers and countless types of government organizations which follow inconsistent processes result in a bureaucratic system which is described as “extraordinary” complex (Makeyenko et al., 1999). A considerable amount of government officials ensures that complex rules and regulations which influence the way of doing business in almost all economic sectors are complied (Russia-InfoCenter, 2007). Thus, a
hostile environment for companies which are operating in the Russian market is created (Aidis & Adachi, 2007; Makeyenko et al., 1999). Consequently, companies have to invest additional resources in order to fulfill regulatory obligations as well as to deal with other legal and illegal threats (Manfred, Stanislav, Konstantin & Elizabeth, 2004; McCarthy, 1995).

The extent of bureaucracy in the Russian Federation is outlined in the following by referring to the business environment ranking “Doing Business” which was conducted by Devan et al. (2011) and published by the World Bank. This ranking compares quantitative indicators like business regulations as well as the protection of property rights and measures the general conditions of the business environment in 183 economies (Devan et al., 2011; Snodgrass & Silcox, 2008). In comparison, “Doing Business” rates the condition of the Russian business environment currently on place 120 of 183 (Devan et al., 2011). Thus, considerable limitations in the way of doing business are indicated.

Three indicators are exemplarily outlined in the following in order to show the extent of bureaucracy in the case of the Russian Federation: these are “Starting a business”, “Dealing with construction permits” and “Getting electricity”. They were chosen because this indicators are considered to be highly relevant for companies of various industries (APEC, 2012; Beslangurov, 2012; Mulders, 2011). In order to further display the extent of bureaucracy, procedures needed to run a business properly or to close it down are additionally outlined.

The indicator “Starting a business” includes bureaucratic procedures which entrepreneurs and companies have to go through to build up and formally operate industrial or commercial business activities. These procedures include applications for licenses and permits as well as administrative inspections and verifications (Beslangurov, 2012). Already in 2007, the last approach to reduce the extent of bureaucracy related to start a business activity was launched and that is why the Russian Federation is currently ranked on place 111 out of 183 (Devan et al., 2011). The extent of bureaucracy for this indicator still is considered to be a major limitation of the way of doing business. The second indicator “Dealing with construction permits” summarizes procedures which need to be undertaken to build standardized warehouses. These procedures include e.g. the submission of a considerable amount of relevant documents like building plans and sitemaps to the Russian authorities. Comparing the extent of all necessary procedures, the Russian Federation is currently ranked on place 178 out of 183. Although major enhancements in the bureaucratic process of construction permits were already conducted between 2010 and 2011 (Devan et al., 2011), this ranking indicates massive barriers for companies which intend to build up an own presence in the Russian market. The third indicator “Getting electricity” measures procedures required to obtain permanent electricity for the standardized warehouses. The indicator compares applications, contract settings with suppliers, inspections and clearances between all participating nations. The Russian Federation currently situated on the last rank (183) (Devan et al., 2011). The increase of electricity prices has worsened the situation even further (Mulders, 2011). Summarized, companies need resources in terms of time and money in order to overcome

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2 The report “Doing Business was chosen as a reference because a comparison between different kind of business environment rankings evaluate the report as a “powerful tool” with considerably low limitations (Snodgrass & Silcox, 2008).
these obstacles before they can get operational in the Russian market (Devan et al., 2011; Kuznetsova, Kunsetsov, & McDonald, 2000).

Operational companies which successfully passed all bureaucratic procedures and managed to launch business activities in the Russian market are likely to face another type of inappropriate bureaucracy: official *inspections* take place which monitor whether regulations such as fire controls or sanitations of running businesses are complied (Timothy & Andrei, 1997). In a study about the establishment of own operations in the Russian Federation, Radaev (2002) observes that these inspections take place on an irregular basis. In his survey, one fourth of the companies experienced nearly no inspection whereas another fourth experienced weekly or even daily inspections. Another study shows that companies experience 82 inspections annually on average (Safavian et al., 2001). These inspections are known for their unpredictable outcomes (Aidis & Adachi, 2007; Barkhatova, 2000). In order to avoid these inspection and other procedures, companies tend to use informal bribes ranging from small presents up to payments for subsidies or contracts which are provided by government officials (section 2.1.2) (Aidis & Adachi, 2007; Radaev, 2002).

Beside these inspections, companies which want to operate in the Russian market in the long run have to deal with bureaucratic procedures related to taxation laws. The “Doing Business” ranking rates the Russian Federation currently on rank 105 regarding transparency in the taxation system (Devan et al., 2011). This fact indicates a rather hostile environment in terms of tax regulations and the related extent of bureaucratic procedures. Tax inspections are a considerable threat for companies due to the fact that tax inspectors hold the legal permission to collect retroactively taxes from any existing business for up to 10 years. This leads to very unclear and random applications of taxation rules. For this reason, these inspections can threaten the existence of businesses and influences its profitability considerably (Aidis & Adachi, 2007; Ernst & Young, 2011). According to Barkhatova (2000) smaller companies have to submit tax reports every three month. Instead of creating an attractive entrepreneurial environment, the Russian Federation has created a complex net of regulations provoking various entrepreneurs and companies to abandon their businesses (Barkhatova, 2000; Preobragenskaya & McGee, 2003). However, closing a business and escapng from the Russian market is even more complicated than to start business operations. Shutting down a business causes many bureaucratic efforts and related costs (Radaev, 2002; Timothy & Andrei, 1997).

Not only “official” federal institutional barriers limit the way of doing business in the Russian Federation but also various procedures which exceed the legal framework (Devan et al., 2011; Gill & Young, 2011; Radaev, 2002). For this reason, “unofficial” trade barriers are presented in the following (section 2.1.2).

### 2.1.2 Unofficial Trade Barriers

It is not everything licitly within the Russian business environment. So is bureaucracy not clear from bribery and the illegal acceptance of benefits as well as breaches of contracts are a frequently observed phenomena (Devan et al., 2011; Radaev, 2002).
Payments for bureaucratic services are legal as well as illegal payments which companies need to pay if they want to do business in the Russian market (Radaev, 2002). Legal payments include fees for undesired services related to a company’s business activities as well as payments to accelerate bureaucratic procedures. Sales classes for employees at a certain agency appointed by the authorities are one example for such undesired services. This kind of payments are not considered to be illegal and the extent is projectable for companies. In contrast, illegal payments as bribes are used in order to get other individual privileges and competitive advantages through the removal of legal trade barriers (Jain, 2001; Radaev, 2002; Yakovlev, 2001). These kinds of payments are discussed in the following.

Illegal business practices such as bribery and corruption during business operations in the Russian market are common and can hardly be avoided. They heavily influence decisions on as to whether companies receive certain orders or win tender processes (Aidis & Adachi, 2007; Anttonen et al., 2005). Thus, corruption has considerable influences on business activities and companies have to decide to which extent bureaucratic exertions and payments for individual privileges are consistent with their own principles and strategies (Radaev, 2002; Yakovlev, 2001). The Interior Minister Rashid Nurgaliev estimates that more than two thirds of all companies within the Russian market spend about 50% on average of their undeclared incomes to corrupt officials. Especially bribery of state employees in the field of healthcare, education or military services is prevalent in the Russian economy (Gill & Young, 2011).

The weak and intransparent administrative organization of the Russian Federation is the breeding ground for corruption which has various consequences (Makeyenko et al., 1999). Inconsistencies in the process of tax collection result in budget shortfalls of the economy (Levin & Satarov, 2000; Luo & Han, 2009). This fact is worsening through inefficiently operating companies which are hold in the market because necessary but expensive restructuring processes can be avoided through illegal payments. Thus, the entrance of companies which operate more efficiently is denied and the overall economic development of the Russian Federation is slowed down (Levin & Satarov, 2000; Pinto, Drebentsov & Morozov, 2000). The expansion of the so called Russian “shadow economy” reduces government budgets and restricts abilities to manage the national economy. Thus, limitations in the supply of public goods as well as services occur and result in social problems. Moreover, the illegal redistribution of resources is promoted and wealth disparities are further increased (Levin & Satarov, 2000).

Another business practices which is not in compliance with the legal framework of the Russian Federation are contract infringements. Through regular breaches of agreements, a distrustful atmosphere is created (Puffer, McCarthy, & Peterson, 2001). As formal business contracts are not reliable in the Russian Federation, companies operating in that market have to deal with further difficulties related to the observation of contractual agreements. These are - among others - additional transaction costs through data collection which is needed to determine the reliability and intention of potential business partners. Moreover, monitoring processes need to be established in order to ensure the compliance with contractual agreements of business partners. The loss of potential profits and the inefficient allocation of resources are risk factors which have to be taken into account during the operations in the Russian market (OECD, 2001; Radaev, 2002).
Although the business environment ranking “Doing Business” indicates reasonable contract enforcements with an overall rank of 12 out of 183 today (Devan et al., 2011), a few years ago the situation was entirely different. Radaev (2002) investigates that only 10 years ago 82% of businesses had problems with breaches of agreements and even 32% of them frequently. However, lawsuits are rarely conducted by companies due to high expenses and uncertain prospects of success (Timothy & Andrei, 1997). This is also influenced through bribery which is prevailing in Russian judiciary and has become a major issue related to corruption in the Russian Federation (Weill, 2011). This is the reason why general disputes are usually solved through informal negotiations instead of judicial hearing (Radaev, 2002). So called entrepreneurial violence\(^3\) is used to counteract contract infringements (Volkov, 1999). A study by Radaev (2002) shows that 40% of all entrepreneurs suffer from violence and use it themselves to replace the rules of laws by the rules of force. This behavior raises transaction costs by up to 10-15% of all revenues for the involved parties. However, as these kinds of illegal instruments are not parts of this thesis, no further explanations are provided.

2.1.3 Recent and Upcoming Business-Impacting Changes

Although business activities are influenced by certain limitations, it is estimated that the Russian Federation will become the largest consumer products market in Europe between 2022 and 2024 (Ernst & Young, 2011). These predictions are based on observations of recent and upcoming events which are likely to have positive impacts on the business environment of the Russian Federation. The most extensive business-impactng changes identified in literature are the membership of the WTO (section 2.1.3.1), the increasing overall wealth of the Russian population (section 2.1.3.2) as well as different political programs (section 2.1.3.3) which target to diminish the consequences of corruption and the extent of bureaucracy.

2.1.3.1 Membership of the World Trade Organization

The WTO is an organization that pursues political and legal objectives to ensure free trade between its members through the standardization of trade barriers (Jensen et al., 2007; Subramanian & Wei, 2007). Main functions of the WTO are the organization of conferences which handle topics such as multilateral trade issues, the monitoring of compliance with international trade conventions that are binding for all members and the provision of a mechanism for conflict resolution with an court of arbitration which is able to declare penalties (Aslund, 2010). For the case of the Russian Federation, a membership of the WTO is perceived as a first step towards a variety of further changes affecting the Russian business environment in the long-run (Chowdhury, 2004; Jensen et al., 2007; Lissovolik & Lissovolik, 2006). Although negotiations with the WTO take place for more than 18 years already, the Russian Federation has not yet become a member. Chowdhury (2004) predicted already in 2004 that a membership will be gained by 2010 or 2011. At the end of 2010, the Russian Federation, the United States and the European Union announced that running negotiations were finally completed (Jensen et al., 2007). The membership will be granted after further

\(^3\)“Violent entrepreneurship can be defined as a set of organizational decisions and action strategies enabling the conversion of organized force (or organized violence) into money or other market resources on the permanent basis” (Volkov, 1999).
domestic ratifications in accordance with WTO standards have been realized and reported to the organization (Chowdhury, 2004; World Trade Organization, 2012). In order to fulfill the requirements of the WTO, the creation of an effective domestic legal framework needs to be proven. Therefore, the government has to evaluate and adjust trade and foreign direct investment regulations as well as national trade barriers (Blankenagel, 2000; Radaev, 2002; Tarr, 2007).

In literature it is predicted that this membership has positive impacts on the Russian Federation itself as well as domestic and foreign companies which are operating in this market (Blankenagel, 2000; Jensen et al., 2007; Tarr, 2007). The newly created legal framework increases the transparency of governmental processes and the predictability of the business environment. Thus, the development of the Russian economy towards an open trade and investment economy is promoted (Blankenagel, 2000; Tarr, 2007). Moreover, liberalization processes are likely to lead to the reduction and elimination of tariff and nontariff trade barriers against multinational providers (Jensen et al., 2007; Kuchins, Beavin & Bryndza, 2008; Radaev, 2002). For this purpose, various adaptations concerning tariff policies, custom administrations, implementation of standards, rights of foreign investors, agricultural policies and intellectual properties are expected (Lissovolik & Lissovolik, 2006; Subramanian & Wei, 2007; Tarr, 2007). However, these adjustments require time to complete and for some reforms it will take up to 15 years to have noticeable effects for the Russian business environment (Blankenagel, 2000).

As a result, Jensen et al. (2007) predict that the Russian Federation will gain about 7.2% of the value of total consumption in the medium run and up to 24% in the long run. Furthermore, the WTO membership tends to have positive influences on the overall income, wages, returns of investments and employment (Tarr, 2007). The reduction of protectionism and the enforcement of stronger intellectual property rights lead to an improved market access for foreign firms and a healthier domestic competitive environment. Moreover, rules and norms as well as trades and investments are much more predictable for foreign firms what reduces risks and costs related to the performance in the Russian market (Blankenagel, 2000; VM Consult, 2011).

2.1.3.2 Increasing Overall Wealth

A series of extensive economic reforms during the last two decades led to considerable economic and social changes within the Russian Federation (Aidis & Adachi, 2007; ALT Research and Consulting Company, 2008; Mroz & Popkin, 1995). These changes result in an increasing overall wealth of the population (Mroz & Popkin, 1995; Mu, 2006). This is considered as a further factor influencing business activities in the Russian Federation.

Russia's increased level of wealth among its population is indicated by a steady growth in GDP within the last years, as it can be observed in Figure 1. This also leads to an increased wealth level compared to other countries, given that purchasing power parity holds true. In turn, this raises demand for various services and products which were not affordable priorly (Central Intelligence Agency, 2012).
2. Development of a Framework

After the breakup of the Soviet Union in 1991, a transition of the Russian economy was triggered through the launch of various economic reforms (Chernichovsky & Potapchik, 1999; Curtis, Petukhova & Taket, 1995). Initial outcomes of these reforms were ambiguous and created an unstable financial environment (Mu, 2006). Many households suffered from an environment of considerable economic uncertainty, especially about payments of wages and pension denials. After the Russian government abandoned their strategy to keep the Rouble strong against the dollar and defaulted on government domestic debt in 1998, a serious financial crisis appeared and households income and consumption per capita dropped by almost 50% compared to 1994 (Mroz & Popkin, 1995). However, the establishment of economic private sectors, the use of freely fluctuating market prices, the privatization of state enterprises and the initiation of processes transferring property and land into private ownership are highlighted, among other reforming processes, to have influenced the overall wealth distribution and the growth of the economy in the Russian Federation during the last decade (Mroz & Popkin, 1995; Mu, 2006). The GDP based on PPP steadily increased from 1998 (923.974 Billion) to 2010 (2230.954 Billion). An exception can be seen in 2008, a phenomenon which is likely to have been caused by the world financial crisis (Central Intelligence Agency, 2012).

Another indicator for the increasing overall wealth in the Russian Federation is the decreasing amount of the population living below the poverty line. Thus, less people have an income that is below the living wage calculated by the state (Shabanov, 2011). According to the Central Intelligence Agency (2012) the amount of the population below the poverty line decreased steadily from 1999 (40%) to 2009 (13.1%). More actual data indicates a slightly increase of the population below the poverty line. According to Pytalev (2012) and Shabanov (2011) the percentage of the population below the poverty line increased in 2010 from 12.6 % to 12.8% in 2011. The main reasons are higher living costs resulting from a relatively high inflation rate (Shabanov, 2011).

Figure 1: Russian GDP based on Purchasing-Power-Parity (Central Intelligence Agency, 2012).
Summarized, the increase of overall wealth promotes the attractiveness of the Russian market to foreign companies because new business opportunities are created. These are resulting from an observed shift in demand of various products and services triggered by higher incomes (Ernst & Young, 2011)

2.1.3.3 Influences of Recently Launched Political Programs

In order to improve the overall business environment and to facilitate the way of doing business in the Russian Federation, a range of political programs dealing with previously introduced trade barriers (section 2.1.1f.) are launched by the government. In the following, selected political programs and their intended impact on tariff and nontariff trade barriers are discussed. Therefore, important programs dealing with the shift of the economy towards a more innovative economy are presented (section 2.1.3.3.1). Afterwards, the most important programs to reduce the extent of corruption (section 2.1.3.3.2) and bureaucracy (section 2.1.3.3.3) are outlined.

2.1.3.3.1 Influences on the Business Environment

In the first instance, the government targets to improve the overall business environment of the Russian Federation in order to make the country more competitive and to ensure its private sectors growth (OECD, 2011). According to Bjorkman (2003) the Russian government is working on the creation of favorable business conditions which are necessary for the development of a competitive economic and political marketplace.

Important decisions to invest massively in strategic sectors and advanced research structures of selected sites were taken in the beginning of the 21th century (OECD, 2011). A series of federal target programs were launched to stimulate research and innovation initiatives as well as the establishment of strong political institutions which follow transparent rules (Bjorkman, 2003). These programs are intended to diversify the structure of the Russian market in order to support the development of an innovative and competitive economy, to create favorable legal environments and infrastructures as well as to launch R&D commercialization systems. Moreover, two major problems are addressed: the current gap located in the level of technological development and the creation of basic conditions for a breakthrough development in sectors which require a high level of innovation (Ministry of Education and Science of the Russian Federation, 2009).

Political programs which were launched to influence the overall business environment of the Russian Federation are summarized in Table 1.
After the breakup of the Soviet Union and the abandonment of the rigid and centralized planning system, the Russian innovation policy was shaped and the result enacted as a law called “Science and State Scientific and Technological Policy” in 1992. The former Soviet system neglected innovative developments and that is why there was an increasing interest in innovation at that time. The primary aim of this program was to establish a new institutional environment, new mechanisms and institutions for science and innovative activities (OECD, 2011; Schweitzer & Guenther, 2005). For that reason, some of the following long term goals of the policy were defined (Ministry of Education and Science of the Russian Federation, 2009):

- Rational distribution and efficient use of technological capabilities.
- Intensified contribution of science and technology in the economical development.
- Progressive technological changes in the production.
- Integration of science and education.
According to Radosevic (2003) the first outcomes of the program were ambiguous and not able to cope with the growing necessity of innovative developments. Shortages in terms of financial resources and manpower limited the scope of the program. At the end of the last century, new financial sources like the launch of venture capital funds as well as the privatization of R&D establishments contributed to the advancements of the program. In order to further amplify its objectives, there are several conceptual and policy documents embodied within the federal law of “Science and State Scientific and Technological Policy”. The government document from 2002 with the name “Fundamentals of the Russian Federation policy in the sphere of development of science and technology for the period up to 2010 and beyond” emphasizes the need for a transition to an innovation-led economic development (OECD, 2011). “Principal Directions of the RF Policy in the Sphere of Development of Innovation System for the Period of up to 2010” was signed in 2005 and is the first official governmental document which defines the development of an innovation system and summarizes main objectives which are, according to the Ministry of Education and Science of the Russian Federation (2009), the following:

- Reproduction of knowledge through enhanced fundamental and exploratory research.
- Introduction of advanced research methods and technological development.
- Development of infrastructures which promote the development of competitive innovative products and advanced technologies.
- Personnel training for organizations and management in the sphere of innovation activities.

Summarizing, the OECD (2011) evaluates initial outcomes of these programs as positive. The establishment of powerful national corporations to enhance the management of state owned technologies was triggered. Furthermore, additional financial resources of the federal budget are invested in higher education systems in order to provide a breeding ground for innovations.

A further program which was approved in 2006 with the aim to enhance the business environment of the Russian Federation is called “The Strategy of Development of Science and Innovation in the Russian Federation for the Period up to 2015”. Its main aim is the formation of a balanced and effective R&D innovation system. This system is likely to lead to technological modernizations of the economy what in turn enhances its competitiveness as a result that advanced technologies and the transformation of scientific potential are a new source for sustainable economic growth. The first crucial step to implement this strategy was taken in 2007 with the “Program of scientific and technological Development and Engineering Modernization of the Russian Federation Economy until 2015” (OECD, 2011)

Close to the end of Vladimir Putin’s presidency in 2007, the strategic long term plan “Concept of Long-term Socioeconomic Development of the Russian Federation for the period up to 2020” was developed in order to further articulate the innovation strategy with clear objectives, priorities and instruments. In 2010, the plan was renamed to ”Innovation Russia – 2020” and includes extended objectives. According to those, the Russian Federation becomes one of the world’s top five economies and establishes itself as a technological innovation leader as well as an international financial center with a global energy infrastructure.
Currently, the Russian industry focuses on demands of the domestic consumer market rather than on innovative and diversified export sectors. The choice of industries to become high technology exporters is political driven and many of them are part of the national defense sector (shipbuilding, aviation). However, in order to become a global economic power, the Russian Federation has to move towards a more innovation based economy (OECD, 2011). To acquire and finance these objectives an annual GDP growth of 6% is required (Kuchins et al., 2008).

2. Development of a Framework

2.1.3.3.2 Influences on the Extent of Corruption

As a result that experts estimate corruption in the Russian Federation at 20% of the GDP, several programs to decrease the extent of corruption and to reduce its negative consequences were recently launched (Shekshnia, 2011). These are summarized in Table 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Program</th>
<th>Aim</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>National Anti-Corruption Plan</td>
<td>- Development of strategies to fight corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Deployment of special investigator task forces</td>
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<tr>
<td></td>
<td></td>
<td>- Registration system for every corruptive activity</td>
</tr>
<tr>
<td>2009</td>
<td>On Measures to fight Corruption</td>
<td>- Establishment of an anti corruption council</td>
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<tr>
<td></td>
<td></td>
<td>- Update of the anti corruption law</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Development of measures to prevent and fight economic and social corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Changes in the mentality and attitude towards corruption</td>
</tr>
<tr>
<td>2010</td>
<td>On National Anti-Corruption Strategy and National Anti-Corruption Plan for 2010 to 2011</td>
<td>- Development of concrete plans and strategies to fight corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Fundamental changes in the public awareness towards an intolerant attitude of corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Integration of a regulatory framework</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Development of corruption fight plans in cooperation with international organizations</td>
</tr>
<tr>
<td>2011</td>
<td>On Amendments to the Criminal Code and the Code of Administrative Offences of the Russian Federation</td>
<td>- Introduction of a wider range of penalties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Development of regulations for legal assistance on cases involving administrative violations</td>
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</tbody>
</table>

Table 2: Political Programs to Reduce the Extent of Corruption (Author's Illustration).

In July 2008, President Dmitry Medvedev approved the “National Anti-Corruption Plan” with the aim to lay out general strategies to fight corruption. The concrete measures have legal or technical character and aim to intensify punishments for corruption within the current framework of already existing state institutions. It includes that officials are punished for the acceptance of even minor corruptions and federal institutions are not allowed to employ persons who had been discharged from state service for being corruptive. Furthermore, special investigator task forces are deployed in order to uncover and confiscate property of Russians found guilty of corruption. State officials are obliged to report any act of uncovered corruption because failing in doing so is treated as a disciplinary offense (Babich, 2008).
In order to strengthen the containment of corruption, President Dmitry Medvedev signed in 2009 the decree “On Measures to fight Corruption” which includes the establishment of an anti corruption council. The program is a package of three major determinants. At first, the anti corruption law is updated and secondly, the program contains not only measures to fight economic and social corruption but also preventive measures. The third component deals to change the mentality and attitude towards corruption. Therefore, a focus is set on the education of legal aspects of corruption (RiaNovosti, 2008).

In April 2010, Medvedev signed the decree “On National Anti-Corruption Strategy and National Anti-Corruption Plan for 2010 to 2011” which build on the “National Anti-Corruption Plan” from 2008. The main features are concrete plans and strategies of how to fight corruption. Furthermore, it defines key areas and phases for the implementation of anti-corruption policies. For that reason, a strategy called “corruption - a systemic threat” was developed and aims to fundamentally change the public awareness. It is targeted to form a society which shows strict intolerance towards corruption (Balmforth, 2010). One of the major aims is to perfect a regulatory framework in cooperation with the Ministry of Economic Development of Russia which analyses the effectiveness of existing Russian anti-corruption laws. Another focus is set on the international level of corruption. Therefore, the Ministry of Economic Development of Russia takes part in developing anti-corruption plans together with the most relevant international organizations: United Nations (UN), Organization for Economic Co-operation and Development (OECD) and Group of States against corruption (GRECO) (Ministry of Education and Science of the Russian Federation, 2009).

In May 2011, Medvedev signed the federal law “On Amendments to the Criminal Code and the Code of Administrative Offences of the Russian Federation”. This law introduced a wider range of penalties to support the combat against corruption because recent experiences showed that even hard penalties, e.g. 12 years of imprisonment, do not prevent people from accepting bribes. Therefore, economic penalties which are assumed to have stronger effects are introduced. A multiplication is used on the value of the bribe to define the monetary penalty. This can range from ten up to a 100-fold, but cannot be lower than 25000 rubles or higher than 500 million rubles (President of Russia, 2011).

2.1.3.3.3 Influences on the Extent of Bureaucracy

The former president Boris Yeltsin (1991–1999) was the first politician who intended to initiated essential measures to decrease the extent of bureaucracy in the Russian Federation: “We need to burn out the bureaucracy and that’s what we intend to do.” (Ryavec, 2003, p. 170). Furthermore, it was stated that the intention to reform the state machinery and to reshape it in a new fashion was prevalent. The objectives of these reforms were to create a more efficient and controllable state machinery. However, his intentions did not result in corresponding measures and the state administration was not improved during Yeltsin’s eight years of presidency (Ryavec, 2003).

In order to revisit the topic, Vladimir Putin invited small and medium sized businesses to discuss state commissions which were designed to reduce administrative bureaucracy in December 2010. Also representatives of business associations were invited to join the
commission on administration reforms in order to directly engage and improve the quality of state administration. Putin intention behind these measures was that initiated key figures help to implement key state programs in order to modernize single-industry cities. Moreover, a further development of the pharmaceutical sphere and medical industry as well as a renovation of the production of component parts for the automobile industry was targeted (Druzhinin, 2010).

In the beginning of 2012, President Putin spoke in the course of the Troika Dialog investment forum in Moscow to several hundred businessmen. Putin highlighted the necessity to liberalize the economy of the Russian Federation by reducing bureaucracy and by accelerating financial transactions. In order to underline his intention, it was explicitly referred to the business ranking of the World Bank. The ranking rates the Russian Federation regarding their extent of bureaucracy currently on rank of 120 out of 183 (cf. section 2.1.1). The objectives for the following years are to reduce considerably the extent of bureaucracy and to achieve an overall rank of 20 out of 183. However, his speech lacks concrete strategies and measures of how to achieve these objectives (Bjorkman, 2003).

2.2 The Health Care System of the Russian Federation

According to Kringos et al. (2009) a health care system is defined as a means to maintain and improve the health care of its respective population with the help of different actors, institutions and resources. The system takes care of the provision of health care, its regulation and funding. Moreover, a health care system aims to achieve the following three objectives: (1) general improvement of the health status of its respective population, (2) guaranteed financial fairness through a fair share of the national health bill and (3) an enhanced responsiveness to requirements of a population regarding dignity, confidentiality and autonomy (Murray & Frenk, 2001). The health care system of the Russian Federation has not reached the previously mentioned objectives yet. The current Russian health care status suffers from a low life expectancy and high mortality rates. Moreover, the regional provision of health care lacks an equal level of funding, access and quality compared to urban areas (Gordeev et al., 2010; Tompson, 2007).

A historical review of the development of the Russian health care system is given in section 2.2.1 in order to strengthen the understanding of the prevailing situation. In section 2.2.2, reforms which improve the health status of the Russian population are introduced. Afterwards in section 2.2.3, the organizational structure and power of the Russian health care system is introduced in order to provide the reader with an understanding why recent reforms have a mixed impact in the health care status of the Russian population.

2.2.1 Development of the Health Care System

With the collapse of the Soviet Union in 1991, the re-established Russian Federation inherited a fragmented and rigidly organized health care system (Barr & Field, 1996; Chernichovsky & Potapchik, 1999). Still existing key institutions of the national medical care system were

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4 The Troika Dialog is one of the oldest and largest investment houses in the CIS. It operates independently and focuses on the creation of opportunities in Russia and other CIS market. These are made available for domestic and international investors (Troika Dialog, 2012).
already founded five years before the establishment of the Soviet Union in 1922 (Rusinova & Brown, 2003). The Soviet health care system was characterized by hierarchical and centralized organization and was completely financed by government revenues (Chernichovsky, Ofer, & Potapchik, 1996; Field, 1999; Tompson, 2007). According to Field (1999) the period of the Soviet Union can be divided into two phases with regard on the achievements in health care outcomes. The first half of the Soviet Union ranges from its establishment in 1922 to the 1960s. From here the second half started and ended with its breakup in 1991. The characteristic and achievements of both phases will be explained in the following.

The extensive economic production during the first half of the Soviet Union had a positive impact on the performance of the economy in general and the health care sector in particular (Chernichovsky et al., 1996). Before the Soviet Union was launched, the Bolshevik Revolution in 1917 took place and the whole country was economically ruined. The recovering process was determined by serious health problems caused by famines, large scale epidemics and infectious diseases (Barr & Field, 1996). As a result, the Congress of Soviets reacted and outlined fundamental principles of health care. Those principles delegated (financial) responsibility of health care to the federal state and provided equal access of health care to every Russian citizen (Chernichovsky et al., 1996; Cockerham, 1997). In order to expand the health care system, training of a considerable number of doctors and nurses and extensive provision of hospital beds became a central concern of government leaders (Barr & Field, 1996; Cockerham, 1997). Even today, the Russian Federation has still more doctors and hospital beds per capita than any other nation (Cockerham, 1997; Tkatchenko et al., 2000). The result of those measures were a steadily improving health care status of the whole population, a decrease of infectious diseases and an increasing life expectancy (Chernichovsky et al., 1996; Cockerham, 1997).

Although the initial results of the restructured health care system during the first half of the Soviet Union were positive and beneficial, four mayor shortcomings were identified: quality, funding, access and strategy (Cockerham, 1997; Curtis et al., 1995). Educational and facility quality was neglected and also medical professionalism was not rewarded by the government at that time (Barr & Field, 1996; Cockerham, 1997). The average monthly income of doctors was only 75-80% compared to what skilled worker earned, e.g. bus drivers (Cockerham, 1997; Field, 1999; Twigg, 1998). Moreover, the social status of a doctor was the same as of a high school teacher. Thus, the standard of quality in medical care was irregular and the provision of health care treatments in rural areas was often undertaken by assistants of physicians instead of approved doctors. Moreover, the average population had no free choice of a doctor but allocation took place based on the residence of each patient (Cockerham, 1997). Health care facilities were characterized by underequipped hospitals and clinics in terms of medical technology but also basic instruments were often not available (Field, 1999; Twigg, 1998). The reason for this fact can be seen in the low ascription of priority granted to the health care sector (Chernichovsky et al., 1996; Curtis et al., 1995; Twigg, 1998). Under the Soviet regime, every sector was assigned to a certain priority status. Higher priority sectors had greater access to qualitative resources and had not to suffer from financial cuts. Moreover, high priority sectors were granted greater freedom and protection from external disturbances.
2. Development of a Framework

(Cher nichovsky et al., 1996). Therewith, the health care sector, as a low priority sector, was only provided with whatever remains over after all high priority sectors, like the defense, were served (Twigg, 1998).

The previously mentioned factors as well as a general slowdown in economic growth were resulting in decline and stagnation in the performance of the health care sector during the second half of the Soviet Union (Barr & Field, 1996; Chernichovsky et al., 1996; Tkatchenko et al., 2000). The general health care status of the Russian population decreased attributable to an unresponsive medical system which failed to address currently arising health challenges at that time (Chernichovsky et al., 1996).

In the future, the Russia Federation and other industrialized countries faced an epidemiological transition during the 1960s which turned the Soviet health care sector into a crisis (Field, 1999). Treatments and containments of communicable infectious diseases were successful but an intensified occurrence of non-communicable diseases, e.g. cancer, diabetes and heart diseases, was experienced (Chernichovsky, Kirsanova, Potapchik, & Sosenkaya, 1998; Field, 1999). Reasons for the intensification of non-communicable diseases can be found in an environmental deterioration and changes in the common life style. These changes involved alcohol abuse, the intensified consumption of tobacco and other drugs, low physical activities as well as poor diets (Field, 1999; Tkatchenko et al., 2000). While other industrialized nations initiated corresponding measures in order to contain the consequences, the government leaders of the Soviet Union failed to respond adequately to this epidemiological shift (Chernichovsky et al., 1998; Tkatchenko et al., 2000). Additionally, moderate qualities of medical institutions as well as the absence of medical equipment worsen the situation (Field, 1999).

Consequences of the stagnating health care sector are manifold and still noticeable today (Tompson, 2007). These consequences together determine and constitute a circuit as it is shown in Figure 2. The deterioration in the health status arose mostly in a decreasing life expectancy of the Russian population and affected the general health care status of the population (Chernichovsky & Potapchik, 1999; Marquez et al., 2008; Tkatchenko et al., 2000). For this reason, the life expectancy still lags 14 years behind the European Union, which shows an average of 80 years (Marquez et al., 2008). Increasing economic costs are entailed by a lower productivity of the workforce, an early retirement from work and higher medical expenditures. Thus, labor supply is restricted and the economic development of the Russian Federation is limited (Marquez et al., 2008; Tompson, 2007). An economic decline in the 1960s and the involved shortage of resources contributed in addition to the steadily decreasing health expenditures of the government (Chernichovsky et al., 1996).
In order to address the previously mentioned consequences, various health care reforms and restructuring processes of the health care system were launched after the collapse of the Soviet Union (Gordeev et al., 2010; Railean, 2011). The most extensive reforms are presented in section 2.2.2. Moreover, the organizational structure and power within the Russian health care system is introduced in section 2.2.3.

### 2.2.2 Reforms within the Health Care System

The collapse of the Soviet Union was the starting point for diverse health care reforms which were and still get initiated in order to deal with the poor health care outcomes of the Russian health care system. The main objective of the government initiatives was and is to replace overhauled methods of the Soviet Union by giving competitive incentives to improve the overall quality of health care (Marquez et al., 2008; Swecare, 2010; Twigg, 2002). Different federal and regional laws were passed, while the government is still working on further health care programs which focus on the development of measures to deal with the still existing health care crisis (Tompson, 2007). Among these measures are the provision of modern technological equipment for health care institutions, improvements in primary care and a completed transition to an insurance-based health care system (Swecare, 2010). Major reforms of the Russian health care system, related to the focus of this thesis, are presented in the following.

In the first instance, the Russian constitution passed the bill of “Mandatory Health Insurance” (in the following OMS) in 1991. This bill provides all Russian citizens with the right of free health care provision (Balabanova, Falkingham & McKee, 2003; Gordeeve et al., 2010; Swecare, 2010; Tompson, 2007). It aims to improve funding shortages of the health care sector through the launch of insurance premiums with tax character. Today public and private business enterprises have to transfer 3.1% of their employee’s payroll to a regional and federal OMS fund (Curtis et al., 1995). Insurance premiums for the non-working population are paid by state controlled bodies. The federal government and regional authorities decide on which medical treatments are provided in line with free health care provision (Swecare, 2010). Tompson (2007, p. 8) criticizes that the transition to an insurance-
based health care system is still unfinished and does not bring the desired results: “[...] Russian healthcare expenditure is poorly allocated and inefficiently administered.”. In order to address these problems, the insurance premium is likely to increase to 5.1% during the next years and the Russian citizens will be provided with the right to choose an insurance company of their trust (Swecare, 2010). Moreover, the OMS bill encourages innovations such as private insurance agencies which have been established increasingly after the bill was passed. Thus, a new source for financing the Russian health care system appeared (Curtis et al., 1995; Swecare, 2010).

In 2006, the Russian president Vladimir Putin launched the “National Project Health” which aims to further improve the financial situation and the general infrastructure of the Russian health care system as well as the situation of the medical device market (Besstremyannaya, 2009; Global Impact Solutions, 2012; Swecare, 2010). For this purpose, the “National Project Health” is financed annually with estimated $5 billion from the federal budget (Global Impact Solutions, 2012). An improvement of the financial situation involves -among other things- increasing salaries and wider provisions of training programs for doctors and nurses who work in emergency and preventive care. As it was already stated before (section 2.2.1), an adaptation of salaries for medical personnel was a necessary measure. Until 2006, salaries in the health care sector often corresponded only to approximately 75% of the average salary in the Russian Federation. Another financial improvement is the increasing funding of maternity hospitals as a result that “maternity certificates” are issued for every pregnant woman. These certificates are monetary equivalents transferred to maternity hospitals which in turn are enabled to spend more money on additional medical equipment or salaries (Besstremyannaya, 2009). Moreover, in terms of enhanced infrastructure the program implies the provision of advanced high-end equipment for hospitals and clinics, a nation-wide vaccination program, free health checks and the establishment of new medical centers (Global Impact Solutions, 2012; Swecare, 2010). Both the Swedish health care network Swecare (2010) and the expert of medical device markets worldwide Espicom Business Intelligence (2012) evaluate the general outcome of the project today as positive. A manifold of health care institutions have been upgraded with contemporary medical equipment and a considerable amount of medical personnel is awarded with adequate salaries (Espicom Business Intelligence, 2012). An increasing purchasing power of hospitals leads to higher demands for medical device products. This is especially beneficial for the order situation of companies operating in the medical technical sector (Swecare, 2010).

In 2009, the “Health Care Development Concept 2020” was launched by the Russian government in order to oppose the still existing high mortality rate and to reach an increase of the average life-expectancy until 2020 (Parfitt, 2009). It is pursued to reduce the rate of mortality within the working population by decreasing the rate of injuries and alcohol abuse as well as to reduce infant and maternal mortality. Moreover, it is aimed to reach a population growth up to 145 million people until 2020 as well an average life expectancy of 75 years. Infant mortality is aimed to decrease to 7.5 per 1000 born children\(^5\). These objectives shall be reached by improved equipments of hospitals, general decreases of hospital capacities, 

\(^5\) By comparison: the infant mortality rate in Sweden is about 2.74 per 1000 born children (Central Intelligence Agency, 2012).
improvements in management decisions for health care institutions, encouragements of individual providers for health care services etc.. Motivational campaigns for the Russian population and medical staff encourage to live healthier lifestyles and provide incentives for quality enhancement in the provision of health care (Swecare, 2010). According to Vladimir Putin (2009) first successes can be found in terms of a decreasing infant mortality rate while the average life expectancy of the Russian population increased about 2.5 years.

Reasons for the mixed results in the previously mentioned health care reforms can be found in the administrative structure and power division of the health care system (Parfitt, 2009). In the following (section 2.2.3), both the organizational structure and the power division of the Russian health care system are introduced.

2.2.3 Organizational Structure and Division of Power within the Health Care System

After the collapse of the Soviet Union and the establishment of the independent Russian Federation in 1991, a reforming and decentralization process of administrative powers within the health care system was initiated (Chernichovsky & Potapchik, 1999; Tompson, 2007; Tragakes & Lessof, 2003). During the Soviet Period, the Soviet Federal Ministry of Health was the central instance and exclusively in charge of management and resource allocation throughout the whole health care administrative system (Chernichovsky et al., 1996). The prevailing centralized system at that time is described as reluctant to changes and led therewith to previously described inefficiencies (section 2.2.1). The Soviet health care system was later replaced by a decentralized and insurance-based system of public health care (Gordeev et al., 2010; Tompson, 2007).

The new organizational structure of the health care system is, similar to the administrative organization of the Russian Federation, divided into three tiers: (1) the federal tier, (2) the regional tier including 21 republics, 6 krais, 49 oblasts, 11 autonomous entities as well as the cities of Moscow and St. Petersburg and (3) the municipal tier compromising cities, villages and townships (Danishevski, 2006; Parfitt, 2009; Railean, 2011; Tragakes & Lessof, 2003). Figure 3 provides an overview of the administrative structure of the Russian health care system today.

The Ministry of Health Care (in the following MHC) is the highest authority of health care within the federal tier (Danishevski, 2006; Rese, Balabanova, Danishevski, McKee, & Sheaff, 2005; Tragakes & Lessof, 2003). It is in charge of a minister (currently: Tatyana Golikova) who is approved by the parliament and appointed by the prime minister. Beside the supervision of actions within the region tier, the most important responsibilities of the federal MHC are described in the following: the governance of federal medical facilities, the implementation of state policy in health care, the development of federal health programs, the development of health regulations, the control and licensing of drugs, the governance of federal medical facilities, the control of infectious diseases etc. (Parfitt, 2009). Health care facilities of the federal tier consist of specialized medical institutions which provide tertiary care for mainly non-communicable diseases (Tragakes & Lessof, 2003). In order to strengthen its position, the MHC consults additionally the federal Health Committee. This committee has several branches in larger Russian cities and is responsible to provide suggestion for health
care programs as well as to supervise the activities of municipal authorities (Shevchenko, 2004). In order to strengthen and improve the coordination and effectiveness as well as to alter the control functions over reform implementation of the MHC, the administrative structure of the Ministry undergoes frequent changes (Tragakes & Lessof, 2003).

The parallel health care system is funded by a federal budget and was originally developed by public enterprises related to defense purposes, railway constructions or river and marine transportation. These companies established a private net of health care facilities and provided high quality health care exclusively to employees of their industries as well as to their families. A wider access to those private health care facilities is limited as a result of the high costs which have to be paid out of the patients pocket (Parfitt, 2009).
The regional and municipal tier consists of administrative units which are responsible for regional and local health care provision. Regional and municipal governments together have an important role in the management of health care as they control two thirds of the public finances for health care (Tragakes & Lessof, 2003). Regional administrative units ensure that federal programs related to the control of infectious diseases, as well as other programs characterized as of high social priority, are undertaken. However, regional units have a high autonomy and no obligation to report successes or failures to the MHC (Parfitt, 2009). Several researchers discuss the question as to whether such a reduction of autonomy is necessary since the implementation of federal health care programs can only be monitored to a limited extent (Barer, Getzen, & Stoddart G., 1998; Danishevski, 2006). Regional health care facilities consist of general hospitals with about 1000 beds, children hospitals with approximately 400 beds as well as specialized health care facilities as for example psychiatrics. Nearly every city has additionally a multifunctional hospital with around 250 beds as well as children hospitals with 200 beds. Maternity hospitals, mental and psycho neurological institutions as well as hospitals dealing with infectious diseases belong to the regional health care institutions (Parfitt, 2009).

In 2003, the autonomy of municipal governments was increased and the importance of local self government was emphasized. Following this, local health care institutions neither have to report to the MHC nor to comply with federal health care programs. Consequently, the reforming process of the health care sector is restricted because municipal health care facilities are only obliged to provide compulsory health care services (Parfitt, 2009).

2.3 The Medical Technology Market of the Russian Federation

The enduring high mortality rate and the poor health care status of the Russian population promotes the necessity of the previously presented health care reforms (section 2.2.2). These reforms bring the Russian medical technology market a cyclical upturn since the provision of contemporary equipment for hospitals is a major approach to decrease health care problems (Espicom Business Intelligence, 2012; Germany Trade & Invest, 2009; Imeda, 2012)

More than 65% of all medical technical equipment used in health care institutions throughout the whole country is outdated. Thus, health care institutions operate inefficiently and this can be measured by the average amount of days patients stay in hospitals: the average is twice as high as in Europe (Germany Trade & Invest, 2009; Global Impact Solutions, 2012). The aggregate expenditure on medical technology in Russia is still comparatively low: the United states spend 15% of their GDP for medical technology, Western Europe follows with 10-12% while the Russian Federation spends less than 5% of their GDP on medical technology (Imeda, 2012). Since the start of the “National Project Health” (section 2.2.2) the Russian market of medical equipment and supplies increased up to US$ 5,961.3 million in 2012 (Espicom Business Intelligence, 2012). As it can be observed in Table 3, more than 80% of the medical equipment within the Russian Federation is imported from Germany, the US, Japan and Switzerland (Germany Trade & Invest, 2009). The import situation remained stable for the last three years but lately a considerable amount of competitors from China and Pakistan have entered the Russian medical device market (Global Impact Solutions, 2012).
2. Development of a Framework

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>Change (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Production</td>
<td>800</td>
<td>760</td>
<td>-5.00</td>
</tr>
<tr>
<td>Import</td>
<td>3.300</td>
<td>4.300</td>
<td>+30.00</td>
</tr>
<tr>
<td>Export</td>
<td>139</td>
<td>132</td>
<td>-5.00</td>
</tr>
<tr>
<td>Market Volume</td>
<td>4.000</td>
<td>5.000</td>
<td>+25.00</td>
</tr>
</tbody>
</table>

Table 3: The Russian Market for Medical Technology (in Million US$) (Germany Trade & Invest, 2009).

Espicom Business Intelligence (2012) states: “Russian medical device manufacturers are generally small and undercapitalized, and tend to produce obsolete products; they can only compete with Western products in terms of cost.”. It is estimated that the local medical device market consists of around 1000 Russian companies with a stable market positions, although their product quality is moderate and their expertise in sales and marketing is limited (Germany Trade & Invest, 2009).

Public calls for tenders are used by state hospitals which aim to (re)equip their medical devices. Providers of medical technical products have to fulfill two requirements if they want to participate in the tender process. Firstly, they have to prove three years of experience in the Russian market and secondly, they have to hold registration certificates for their products. The registration of medical technical products in the Russian Federation is characterized as a long-term and expensive process. Regulations which have to be fulfilled in order to obtain certificates are manifold and complex. In terms of bureaucracy, the whole process can cost up to 10.000 Euros per product. Moreover, 5%-18% of the import value is charged through custom duties (Germany Trade & Invest, 2009).

As already observed (section 2.2.3.3), different political programs aim to decrease the amount of bureaucracy. The empirical analysis of this thesis will investigate in what way companies in the medical technical sector can profit from these regulations. Especially the decreasing complexity in the registration process of their products is of interest in this section. In the following (section 2.4) the role of networks in the Russian market is discussed.

2.4 Networks in the Russian Federation

The development of the Russian market from a planned economy towards a free market economy involved that interactions between different actors are no longer constrained and supervised by a planning system (Salmi, 1996). However, the previously presented limitations of doing business (section 2.1.1f.) indicate that the Russian market does not fulfill the requirements for a “[…] workable free-market economy […]” (Baumol, 2002, p. 4) yet. A considerable amount of research highlights networking as the most suitable approach to overcome obstacles in the Russian market (Aidis et al., 2008; Batjargal, 2003; de Kets Vries & Florent-Treacy, 2003).

Owen-Smith (2007) defines networks as a measurable arrangement of relationships between different entities in a social environment. Four important key mechanisms and characteristics of networks are highlighted: (1) networks serve as a channel for resources and information (Ahuja, 2000; Björk & Magnusson, 2009), (2) networks signalize a certain status (Owen-Smith J. & Powell, 2004), (3) networks increase social influences (Rogers, 1995) and (4) networks facilitate the development of innovative products (Conway & Oswald J., 2006).
Fundamentals of the network theory (section 2.4.1) and distinctions between different kinds of networks (section 2.4.2) are introduced in the following. Based on these findings, the theoretical importance of networks for companies of diverse industries operating in the Russian market is shown in section 2.4.3. The empirical analysis of this thesis examines the findings exemplified for the case of companies in the Russian medical technical sector.

2.4.1 Fundamentals of the Network Theory

The network theory originates in a broad research program which examines the characteristics and functionality of business markets. It was initially conducted by the University of Uppsala in the mid 1970s (Håkansson & Snehota, 1989). Several researchers contributed to this research program and a considerable amount of studies about the development of the network approach was conducted (Kutschker, 1985; Mattsson, 1985; Thorelli, 1986).

The basic assumption of the network theory stems from casual observations in various business environments of companies: “[…] business organizations often operate in environments which include only a limited number of identifiable organizational entities (actors). These entities are involved in continuous exchange relationships with the business organization.” (Håkansson & Snehota, 1989, p. 109). According to Håkansson and Snehota (1989) the previously described situation arises mostly in an industrial context when companies operating in the same market only face a limited number of other actors such as customers, competitors and suppliers. As a result that each actor primarily pursues its own objectives within an exchange relationship, a mutual exertion of influence occurs (Håkansson & Snehota, 1989). Turnbull and Valla (1986) state that not only industrial companies but also a wider range of enterprises (i.e. non-profit organizations) face a limited number of actors in the business environment they are operating in. Therewith, the network approach can be applied to situations where an organization operates in a structured and concentrated environment that consists of a considerably small amount of other actors (Håkansson & Snehota, 1989).

The establishment of exchange relationships links the activities of a company to those of other actors and vice versa. These relationships are usually characterized by a long-term orientation and complexity. Steady, rather than discrete, long-term oriented exchange is desired because establishment and maintenance of a valuable net of contacts is time consuming and requires considerable effort (Håkansson & Snehota, 1989). The fact that actors within a network belong to different organizational entities (Håkansson & Snehota, 1989) leads to the development of a complex net of interdependencies (Ford, Hakansson, & Johanson, 1986). These interdependencies have the power to influence and constrain the behavior of companies (Håkansson & Snehota, 1989): e.g. customers demand varying amounts of products or

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6The term business organization is defined as follows: “Business organization refers to all necessary arrangements required to conduct a business. It refers to all those steps that need to be undertaken for establishing relationship between men, material, and machinery to carry on business efficiently for earning profits. This may be called the process of organizing. The arrangement which follows this process of organizing is called a business undertaking or organization.” (Business Organization, 2012, p. 2). In order to facilitate the understanding, the terms “company”, “enterprise” and “firm” refer in the following to the result of a business organization process.
services, competitors limit the extent of business activities and the relationship to suppliers form a very important input for the operational level of a company. Thus, a company is in lively touch with other actors and interaction as well as exchange processes are encouraged. Moreover, governments, trade unions, norms, regulations and ethic values influence the development of business relationships (Jansson, Johanson & Ramström, 2007).

In order to build up a network and maintain it in the long-run, all parties have to accept adaptations and the establishment of routines to strengthen their relationships (Huber & Wörgötter, 1998). In return, the involved actors get mutual access to resources of others. Capital, skills, information and labor are crucial resources in order to establish new and to further develop existing businesses (Greve, 1995). In general, resources can be classified into three categories (Kanter, 1995): (1) informational, (2) motivational and (3) material resources. These resources can be mobilized and used to some extent from all actors within a particular network. Therefore, an active participation in the fostering of networks is required rather than a passive adaptation of relationships. Active participation involves that all actors interact regularly and consequently, reciprocal knowledge and capabilities are developed jointly. This fact entails mutual dependence but also a development of particular capabilities which are only meaningful if all actors are involved in exchange processes. Thus, capabilities and the identity of a company develops through relationships and exchanges with its most important counterparts (Håkansson & Snehota, 1989).

Summarized, an evolving net of exchange relationships is called a network. Interdependencies regarding resources and activities of all actors which are connected through such a business relationship is a network’s major characteristic (Cook & Emerson, 1978). Another important aspect of networks is that activities of actors who are part in more than one relationship can compete against each other. Resources which are used or exchanged in one relationship might complement the resources of another relationship. However, production capacities might be sacrificed because the resources were already used in a different relationship. Thus, the success and usefulness of relationships depends not only on a business organization and other actors but also on third party relationships (Håkansson & Snehota, 1989).

The main assumptions and characteristics of the network theory are summarized in the following (Håkansson & Snehota, 1989):

1. The behavior of a business organization is constrained and influenced by a limited number of counterparts which operate within the same business environment, while all involved parties pursue their own objectives.
2. Business organizations are engaged in continuous interactions with other actors what enables them to gain access and use (in)tangible assets from other parties.
3. Capabilities and identities of business organizations are developed through regular exchange relationships with other actors.
4. The performance of business organizations is conditioned by the totality of actors within one network as well as by influences of third party relationships.

2.4.2 Different Types of Networks
Continuous developments in the network theory lead to various distinctions of networks which differ in terms of their objectives and purposes. Business networks (Byham, 2010), corporate networks (Windolf, 2002), economic networks (Schweitzer et al., 2009), managerial networks (Li, 2005) and social networks (Liebeskind, Oliver, Zucker, & Brewer, 1996) are only a few examples of evolved networks which are important for an international business environment.

As a result that a considerable amount of research highlights business and social networks as a valuable means of information exchange and survival in the Russian market (Håkansson & Snehota, 1989; Martinez & Aldrich, 2011; Michailova & Worm, 2003), definitions, characteristics and benefits of both business (section 2.4.2.1) and social networks (section 2.4.2.2) are presented in the following.

2.4.2.1 Business Networks

According to Byham (2010, p. 65) business networks are defined as “ [...] a collection of people, preferably with a broad array of experience and knowledge, to which an individual is connected and with which the individual is in periodic contact.”. However, there is no general consensus about a definition of the term business network. Blankenburg and Johanson (1992) highlight that the interconnectiveness of business relationships is a major element of all definitions. Porter (1990) defines business networks as linked exchange relationships among actors, which control business activities and provides therewith the underlying definition of an business network for this thesis.

Huber and Wörgötter (1998) describe long-lasting and stable relationships as an important characteristic of business networks. According to Byham (2010) each business network consists of a group of not necessarily acquainted people who respond to emails with important requests quickly and who provide job-relevant help whenever it is needed. Prenkert and Hallén (2006) state that business networks have neither a center nor outer boundaries. Interactive processes may therefore occur in all directions of business networks. Moreover, business networks differ in terms of form and content: the form of business networks is a trade or capital orientation whereas the content can depend on technologies, administrative routines, information about ongoing political reforms, general or specific knowledge and social ties. Another characteristic of business relationships is their complexity. Mostly more than one activity and party is involved in an exchange process since solutions of business problems often require considerable effort and deeper knowledge. However, it is also shown in literature that business networks differ among nations in terms of their openness and verticality. Openness refers to the degree to which outsiders are able to penetrate the network whereas verticality describes the extent of organized peer groups within a particular network (Huber & Wörgötter, 1998).

As a result of a progressing globalization process and an increasing complexity of business environments, business networks gain more importance. Companies grow larger and their organizational structures get even more complex. Moreover, companies operate increasingly on an international rather than a local level. This leads to a situation as described in Figure 4. Especially in the management tier of organizations more knowledge gaps occur due to an
increasing complexity of business environments. Managers as well as regular employees need to consider and accumulate more knowledge than ever before. In the era of globalization, it is no longer sufficient to evaluate the internal and local business environments. Outside entities like foreign governments, vendors, international competitors and pressure groups need also to be taken into consideration. However, managers and employees are no longer capable of gaining all information which is required to complete necessary business related actions on their own. Business contacts provide a useful tool to close these arisen knowledge gaps (Byham, 2009).

The transaction cost theory by Williamson (1975) provides further insights as to why business networks arise. Firstly, transaction costs are minimized through the establishment of business networks in cases when specific resources or fast and flexible solutions are needed (Huber & Wörgötter, 1998). Being part of business networks has not only advantages for organizations but also careers of their managers are encouraged. Beside the bridging of knowledge gaps within the management tier, several additional advantages of business networks are discovered and summarized in Figure 5. Byham (2010) states that sharing of best practices, alignment of people or units and improved decision making processes are further advantages of well established business networks. Moreover, reputation benefits, facilitated access to new markets (Podolny & Page, 1998) and the generation of innovations (Powell, 1996) are stressed. An encouragement in business networks pays off for managers in terms of an increasing salary and job satisfaction (Wolff & Moser, 2009), career success (Langford, 2000) and further promotions (Michael & Yukl, 1993). To this point, there is no sufficient evidence in literature for any disadvantages related to business networks.

![Figure 4: The Relation between Knowledge Gaps and the Degree of Globalisation (Byham, 2010).](image-url)
A differentiation between business and social networks is introduced in the following (section 2.4.2.2). In general, members of business networks are not necessarily acquainted with other actors of the network. Contacts within a social network do not reply necessarily to emails in time or provide job relevant help when it is needed (Byham, 2009).

2.4.2.2 Social Networks

Liebeskind et al. (1996, p. 430) define a social network as a “[…] collective of individuals among whom exchanges take place that are supported by shared norms and trustworthy behavior.”. Several researchers agree on the described characteristics in the definition of Liebeskind et al. (Jones, Hesterly & Borgatti, 1997; Michailova & Worm, 2003). Therefore, it becomes also the underlying definition for this thesis.

An important characteristic of social networks is that communication paths are relatively short. For this reason important information or other resources can be transferred quickly within social networks (Blau, 1977; Burt, 1995). This networks change steadily and cannot be viewed as static. Even contacts which do not regularly take part in exchange processes of a particular social network can suddenly become part of it, e.g. if they become valuable in a certain situation which includes particular needs (Granovetter, 1985). This means that not only relatively close contacts but also distant contacts have a crucial role in business decisions (Greve & Salaff, 2003). In order to complete the basic characteristics of a social network, it is important to mention the “Theory of Weak and Strong Ties” of Granovetter (1973) as a fundamental viewpoint of the social network approach. The author adopts a more individualistic point of view but his findings can also be applied for cases of business organizations. In this theory, two different degrees of interconnectedness within relationships are distinguished as shown in Figure 6.

**Figure 5: Benefits of Business Networks (Author’s Illustration based on Tretyak, 2009).**

**Figure 6: Weak and Strong Ties of Social Networks (Zhao et al., 2011).**

Weak ties describe relationships between members of different groups which do not contact each other on a frequent basis. Linkages between different networks are in general provided
by weak ties which allow access to information outside the own network, e.g. political movements, job offers and the launch of new technologies. Strong ties build upon relationships between people who live, work or play together and thus, belong to the same network. A network build upon weak ties is characterized by a low density of actors and an infrequent usage. Strong ties, on the other hand, imply a knit network which needs time and effort to maintain it since it occurs mainly in relationships with close friends, colleagues and family. Comparing both network ties it becomes noticeable that strong tie networks imply a considerable higher amount of relations within the same network than weaker tie networks as well as a more frequent usage (Granovetter, 1973).

Contrary to business networks, establishments of social networks do not only have positive but also negative aspects at the same time (Batjargal, 2003; Greve, 1995). These are summarized in Table 4:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tr>
<td>Useful information, social support, advise (Aldrich &amp; Zimmer, 1986)</td>
<td>Reinforcement of social obligations and expectations (Uzzi, 1997)</td>
</tr>
<tr>
<td>Material resources and access to distribution channels (Greve &amp; Salaff, 2003)</td>
<td>Increasing social liabilities (Gargiulo &amp; Benassi, 1999)</td>
</tr>
<tr>
<td>Access to financial capital (Shane &amp; Cable, 2002)</td>
<td>Constrain of economic freedom (Uzzi, 1997)</td>
</tr>
<tr>
<td>Recognition and enhanced business quality perception through prestigious and influential contacts (Stuart, Hoang, &amp; Hybels, 1999)</td>
<td></td>
</tr>
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</table>

Table 4: Advantages and Disadvantages of Social Networks (Author's Illustration).

Social benefits through useful information obtained by knowledgeable actors, social support as well as advice are advantages for entrepreneurs and companies. They support the development of well-established social networks (Aldrich & Zimmer, 1986). Access to tangible assets which complement existing parts as well as to distribution channels can be obtained through the activation of social contacts (Greve & Salaff, 2003; Teece, 1986). Shane and Cable (2002) point out that social contacts provide support by offering financial capital more easily compared to third parties, what is a very important advantage of social networks. Besides, support and help of prestigious and influential contact persons enhances the overall perception of companies and makes a venture more popular (Stuart et al., 1999).

There are also some disadvantages which need to be considered when being a part of social networks. Depending on the closeness of relationships between two actors, increasing social obligations and expectations of counterparts arise (Uzzi, 1997). Gargiulo and Benassi (1999) discuss the occurrence of social liabilities in the same context. Thus, the exploitation of new business opportunities might be influenced since the economic freedom of actors is constrained by the expectations of anothers (Uzzi, 1997).

2.4.3 Role of Networks for the Russian Market
A considerable amount of studies support the theory that networks are important for successfully doing business in the Russian market (Aidis et al., 2008; Batjargal, 2006). In the following the general role of networks for the Russian market is presented on a theoretical basis (section 2.4.3.1). Afterwards, the importance of business networks (section 2.4.3.2) and social networks (section 2.4.3.3) is discussed in particular.

2.4.3.1 General Role of Networks

The importance of networks for the Russian market is a result of different limitations such as a weak institutional environment, an arbitrary enforcement of property rights (Puffer et al., 2001), a high level of corruptive activities (Frye & Shleifer, 1997) and government interventions (Shleifer & Vishny, 2002). Aidis et al. (2008) provide evidence that good contacts in the Russian market are a crucial determinant which help to overcome the previously mentioned barriers and which decide about the development of a company. The lack of well-established networks makes companies vulnerable to corrupt officials (de Kets Vries & Florent-Treacy, 2003). Aidis and Adachi (2007) state that networks connect business organizations and officials with significant power of decision what is considered to be a precedent of successfully doing business. Moreover, the Russian business environment is characterized by a comparatively low level of trust towards competitors, officials, the government, business partners etc. (Puffer et al., 2001). Radaev (2005) finds that trust within the Russian business environment develops through a permanent repeated interaction process between two actors. This means that relationships are strengthened through the exchange of resources and information as well as through the support of involved parties. Aidis et al. (2008) conclude that so called network insiders with contact to state administrative and already existing business organizations have a major advantage when they enter the Russian market compared to so called network outsiders.

2.4.3.2 Business Networks in the Russian Market

Main findings of recent research regarding business networks in the Russian Federation and their contributions are provided in the following:


2. The opportunistic behavior of Russian officials are less harmful for companies who have access to business networks (Aidis & Adachi, 2007; de Kets Vries & Florent-Treacy, 2003).

3. The level of trust within the Russian business environment is relatively low and develops mainly through repeating business interactions. New joiner which have not had the possibility to prove their trustiness, can take advantage of business networks and references of already established and trusted contacts (Radaev, 2005).

In general two different types of business networks within the Russian market can be identified (Huber & Würgötter, 1998). These are survival and entrepreneurial networks which differ in their degree of openness towards cooperation with foreigners and their objectives.
2. Development of a Framework

(Huber & Wörgötter, 1998; Salmi, 2004). Huber and Wörgötter (1998) state that survival networks are predominant in the Russian market whereas the amount of entrepreneurial networks is considerably smaller.

**Survival networks** have their origin in the second half of the Soviet Union and mainly consist of managers who pursue the objective to “[…] protect or maximize their power to extract rents, which can be quite large in the conditions of Russia today” (Huber & Wörgötter, 1998, p. 57). Therewith, the main focus of survival networks, beside the isolation and protection of its members from the market competition, is the maximization of mutual power in order to extract large amounts of rents out from companies. Thus, riches can be accumulated and bankruptcy avoided. The short-term rent-seeking activities do not reach business conditions which result in sustainable business activities. This means that those companies are not likely to compete successfully with others in the same business environment over time. However, these kinds of networks are relatively closed towards foreign actors as substantial control and trust-based relationships are needed in order to exercise power. For this reason, the attitude of existing members towards foreign companies to join this kind of business networks is ambivalent. On the one hand, foreign firms can be a valuable source for additional financial input. On the other hand, Western firms are perceived to be likely to impose control mechanisms on business activities which interfere with the ability to extract large amount of rents (Huber & Wörgötter, 1998).

Engagement in **entrepreneurial networks** is profit oriented. Already established companies which target a restructuring process as well as an entrance process in the Russian market are actors within these kinds of networks. Both, splitted and those companies which changed their legal forms as well as completely new companies are considered as new entrants. Nevertheless, networks which have a great share of new entrants with limited market experience are vulnerable and face server disadvantages. Political defense of these actors often results in struggling conditioned by their entrepreneurial status. Despite these disadvantages, entrepreneurial networks integrate new members from foreign countries. Cooperation or other forms of joint activities are embraced for important information, additional resources, investments and knowledge as they strengthen the market positions of already existing actors. The fact that companies which act independently and without engagement in networking activities are too weak to be successful in the Russian business environment strengthens the importance of business networks for new entrants. Long existing entrepreneurial networks are advantageous as their members are more experienced and possess a more stable power-base. Networks based on old structures are open to foreigners if these increase the profitability of the network or if they enhance the capacity of restructured already established enterprises. These undertakings require large amounts of capital and for this reason actors prefer cooperation in terms of direct foreign investments (Huber & Wörgötter, 1998).

During the Soviet Era, it was common that relationships between companies were influenced, controlled and supervised by a central planning system. As trust towards the central planning system was not given, managerial staff mainly relied on personal contacts within social networks in order to gain information or help if necessary (Jansson et al., 2007). Since several researchers emphasize the extraordinary role of social networks for the Russian market
Janina Sundermeier, Tobias Aust

(Barnes et al. 1997; Michailova & Worm, 2003), further findings of social networks in the Russian context are presented in the following.

2.4.3.3 Social Networks in the Russian Market

According to Barnes et al. (1997, p. 549) social networks can be considered as “[…] oil in the wheels of Russian business.”. It is stated that social relationships in Russia are highly relevant even today in order to get necessary support to overcome obstacles and to get what is otherwise inaccessible in terms of crucial information or other resources (Butler & Purchase, 2004; Michailova & Worm, 2003).

The extraordinary role of social networks in the Russian Federation is compared in Table 5 regarding important aspects of social networks between Western countries and the Russian Federation.

<table>
<thead>
<tr>
<th>Social Networks in the Russian Federation</th>
<th>Social Networks in Western countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitally important; often a matter of survival</td>
<td>Important</td>
</tr>
<tr>
<td>Highly frequent exchange</td>
<td>Exchanges are discrete in time</td>
</tr>
<tr>
<td>Exchanges take place at the workplace</td>
<td>Exchanges take place outside the workplace</td>
</tr>
<tr>
<td>Extended relationships/ mediated exchanges</td>
<td>Dyad-based relationships/direct exchanges</td>
</tr>
</tbody>
</table>

Table 5: Comparison of Social Networks in Russia and Western Countries (Michailova & Worm, 2003).

Michailova and Worm (2003) state that social networks are vitally important and often a matter of survival in the Russian market as they allow access to information and resources through personal contacts which would otherwise not be given. Social networks are less import for Westerner as they do not rely as much on personal contacts because the level of trust in official institutions is considerably higher in these countries. A means to strengthen the level of trust between two actors is a frequently repeating exchange relationship what is also a characteristic of social networks in the Russian market (Radaev, 2005). Exchanges of favors in the Russian Federation usually take place in workplaces because personal help is often used in relation to issues another actor is working for. Contrary, social networks in Western countries serve more as support on a private basis such as baby-sitting, borrowing money etc.. Russian social networks involve not only direct participants but also third party relationships of which an actor can take advantage of (Michailova & Worm, 2003).

A specific term referring to social networks in the Russian federation is the term Blat. This is an expression for social networks and a description of the informal exchange of favors through social contacts. Several authors in the field of business ethics describe Blat as a peculiarity of the Russian business environment (Butler & Purchase, 2004; Michailova & Worm, 2003). However, the term Blat cannot easily be translated into English (Butler & Purchase, 2004). Two different definitions and characteristics of Blat are described in the following in order to identify the attitude of the Russian society towards social networks:

1. Ledeneva (1998) defines Blat as an exchange of favors when shortages occur. Those favors are mediated as a result of friendship or acquaintance and can be the source for public resources.
2. Development of a Framework

2. Kryshtanovskaia (1994, p. 9) defines Blat as a “[…] reliance for favours upon personal contacts with people in influential positions.”

The first meaning refers to Blat in terms of social networking. This means people offer voluntarily special treatments and help to contacts within the network. The second meaning of Blat refers to criminal business activities such as extortion of influential people which are used in order to gain access to resources. Also in this case, people state that they gained access to certain resources “by using Blat” (Butler & Purchase, 2004). Since criminal activities are not taken into consideration for this thesis, the criminal meaning of Blat will not be discussed.

Michailova and Worm (2003) describe three different features of social networks (Blat): social resourcing, continuity of relationships and coexistence of trust, cooperation and power. The term social resourcing describes a situation where access to required resources cannot be gained through own social connections but through connections with actors outside the own network. Thus, social obligations can be avoided as direct personal contact is not given (Butler & Purchase, 2004). Russian citizens tend to develop relationships with a long-term orientation in order to protect own interests and to provide a basis for the development of trust. That is why actors tend to maintain a stable relationship with neighbors, universities friends, acquaintances from holiday stays etc..Thus, actors which are part of social networks tend to support each other on a professional and personal level. Personal relationships can decide whether a state official supports a business with necessary documents or certificates and therewith, also over the survival and development of it (Butler & Purchase, 2004). Moreover, Michailova and Worm (2003) point out that actors in social networks are less likely to expect immediate returns for their help. The coexistence of trust and cooperation on the one hand and power on the other hand is the third feature of Blat. Butler and Purchase (2004) investigate that when two actors in the Russian market have a stable relationship based on trust, one actor can easily profit from the power of the other. Moreover, emotional ties between actors in Russian social networks are important and business men who need powerful contacts primarily rely on personal relationships rather than on formal ones.

Butler and Purchase (2004) revise research regarding Blat and developed a framework summarizing its antecedents in order to show possible explanations why social networks are important for the Russian market. Figure 7 gives an overview about the antecedents of Blat and delivers hereby a possible explanation why social networks gain importance in the Russian market over time.
As the Soviet era was characterized by shortages, people tried to gain access to limited products or services through favors of personal contacts. Today, businessmen are likely to look for favorable contract conditions, access to influential customers etc. Desired economic advantages are e.g. the avoidance of fees which would be charged without the help of a social network nowadays. Thus, more money can be saved and wealth can be accumulated. As discussed before (section 2.4.3.1), Russian citizens do not trust the legal system as the enforcement of legal rights is not given all along. However, companies have to ensure that their clients pay for delivered products or services. Consequently, close personal relationships are formed aspiring protection of one’s own rights. The culture of the Russian Federation is characterized by a high degree of collectivism which originated from the rigid Soviet planning system with restrained personal freedom. People were always forced to sacrifice personal interests for the collective good and this attitude has not yet changed. A typical characteristic of the Russian culture is to ensure the well-being of people who are parts of one’s own social network by providing access to assets, privileges and favors. Mutual dependence was historically developed over time when people in rural areas were highly reliant on each other. It is common that relationships between managerial staff and their employees are based on mutual favors until today. Managers offer help in terms of child care, housing or retirement benefits and employees are willing to take care of little favors which extent their usual business responsibilities. A development towards a free market economy involves that companies are in possession of networks which include state officials and security firms. Thus, their market position is likely to strengthen since important information about business partners or ongoing changes are exchanged through the activation of social relationships (Butler & Purchase, 2004).

Summarized, it can be said that social networks (Blat) have a very strong impact on business operations within the Russian market because social contacts have a more important role for
successfully doing business in the Russian market than formal institutions. One reason for this is a low level of trust resulting from an arbitrary enforcement of laws (Butler & Purchase, 2004). So far it was shown that networks have an important role when companies want to further develop within the Russian market. Moreover, they are likely to serve as a mediator between ongoing business-impacting changes and companies operating in the Russian market.

Until now, previously mentioned findings can be applied to companies of various industries. The empirical analysis investigates to which extent these findings can be used for companies operating in the medical sector and which kind of network is most important to be successful in the Russian market.

### 2.5 Framework

The previously presented content aims to provide the reader with background information necessary to understand the research focus of this thesis. It is shown that different recent and upcoming changes will or already have an impact on the way of doing business in the Russian Federation. These business-impacting changes are treated in a general manner and can be applied to companies from various industries. In literature, most changes are discussed on a theoretical basis unrelated to real business practices. In order to close this research gap, the following framework (Figure 8) summarizes the most important findings of the previous sections. It is assumed that doing business in the Russian Federation for companies operating in the medical technical sector is influenced by discussed business-impacting changes (section 2.1) as well as by health care reforms launched to deal with the poor health care outcomes of the Russian Federation (section 2.2). The empirical analysis of this thesis investigates how different changes belonging to one of the two categories have an impact on companies operating in the Russian medical technical sector. Moreover, it is examined which influence networks have on approaches to handle previously described changes.

**Figure 8: Framework for the Analysis (Author's Illustration).**

First, the upcoming **WTO membership** (section 2.1.3.1) of the Russian Federation is discussed regarding a variety of further changes affecting the Russian business environment in the long-run. The WTO accession is likely to promote the development of the Russian economy towards an open trade and investment economy as a result that tariff and nontariff
trade barriers against multinational providers are likely to diminish (Blankenagel, 2000; Jensen et al., 2007; Kuchins et al., 2008; Tarr, 2007). Thus, a healthier competitive business environment is encouraged and costs as well as risk factors of national and foreign firms are reduced (Blankenagel, 2000; VM Consult, 2011). Until now, turnover of foreign medical technical companies in the Russian market is restricted due to the fact that foreign producers are barely able to compete against domestic ones (section 2.3). Domestic producers experience besides cost advantages also support and prioritization through the Russian government (Parfitt, 2009). In relation to the first research question, it is assumed that the membership of the WTO has positive impacts on the turnover and sales figures of companies operating in the medical technical sector. An enhanced competitive business environment in combination with reduced trade barriers presumably enables medical device companies to increase their market share.

This assumption is strengthened by ongoing economic and social changes resulting in an increasing overall wealth (section 2.1.3.2) of the Russian population (Aidis & Adachi, 2007; Mroz & Popkin, 1995). Indicators for an increasing overall wealth are a steady increase in GDP as well as a decreasing share of inhabitants living below the poverty line (Shabanov, 2011; World Bank, 2012). This effect is promoted—among others—through the privatization of state enterprises and the establishment of economic private sectors (Mroz & Popkin, 1995; Mu, 2006). The order volume of medical device products for the Russian health care market is restricted due to inefficiently administered and poorly allocated health care expenditures (Tompson, 2007). This fact leads—among others—to an inability of the Russian health care system to cope with the prevalent health and mortality crisis (section 2.2.1f.) (Gordeev et al., 2010; Tompson, 2007). Considering the first research question it is assumed that an increasing overall wealth has positive impacts on the order volume of foreign medical technical companies. Increasing overall wealth provides wider access to private health care treatments which were so far restricted as a result of their high costs (Parfitt, 2009). Foreign medical technical companies have an advantage in this case as Russian procedures cannot satisfy the expectations in terms of high quality products (Germany Trade & Invest, 2009).

In order to further simplify business activities, different political programs (section 2.1.3.3) are launched to improve the general business environment, to fight corruption and to reduce the extent of bureaucracy. Political programs launched to improve the business environment pursue, like the membership of the WTO, the overall objective to develop an innovative and more competitive economy through systematic advancements in research and technology (Bjorkman, 2003; Ministry of Education and Science of the Russian Federation, 2009). Using the same pattern of reasoning as in case of the WTO, it is assumed that an enhanced competitive business environment in combination with the removal of trade barriers positively influence the market share of foreign companies operating in the Russian medical technical sector. Moreover, it is assumed that this fact is further promoted through the impact of political programs launched to fight corruption in the Russian Federation. If corruption can be decreased, companies which operate according to western-oriented principles are not longer hold back and business operations are facilitated (Aidis & Adachi, 2007; Anttonen et al., 2005). The same holds true for the amount of bureaucracy that medical device companies have to deal with. Every product has to be authorized in a time consuming and expensive
process before they can be sold in the Russian market (Germany Trade & Invest, 2009). It is assumed that more transparency facilitates bureaucratic procedures of authorization processes for medical technical products.

Moreover, the origin of poor health care outcomes in the Russian Federation is presented and reasons why different health care reforms became necessary are discussed (section 2.2.2). The bill of “Mandatory Health Insurance” was already passed in 1991 while its implementation is not finished yet (Balabanova et al., 2003; Tompson, 2007). The program causes the launch of private insurance agencies and therewith a new source of financing (Curtis et al., 1995; Swecare, 2010). It is assumed that these additional funding is advantageous for companies operating in the medical technical sector because more money is dedicated to the health care sectors and its institutions. Thus, an increasing order volume of medical technical products is expected. This fact is intensified through the launch of the “National Project Health” in 2006 and the “Health Care Development Concept 2020” in 2009. Their objectives are - among others - to enhance the infrastructure of health care institutions and the situation of medical device producers. An enhancement of the infrastructure implies the provision of adequate medical equipment. This is likely to have positive effects on the demand for products of medical technical companies worldwide.

The second research question includes an investigation of the role of networks (section 2.4) for the Russian market as a mediator between ongoing chances as well as their impacts on medical device companies. A variety of limitations in the business environment (Frye & Shleifer, 1997; Puffer et al., 2001; Shleifer & Vishny, 2002) determine the importance of networks in the Russian market to overcome different barriers (Aidis et al., 2008). If the same holds true for medical technical companies, it is assumed that the communication of crucial information regarding ongoing business-impacting changes is facilitated through these networks. Thus, medical technical companies that hold a wide net of contacts in the Russian market are likely to get important information about new developments, e.g. in connection to the WTO membership, in time and are able to initiate corresponding measures immediately. A support of this assumption would imply that medical technical companies with a well-established network possess competitive advantages. Moreover, it was shown that business as well as social networks are two types of networks which are considerably more important than other network types in the Russian market (Håkansson & Snehota, 1989; Martinez & Aldrich, 2011; Michailova & Worm, 2003). Especially the role of social networks as a compensation for the lack of trust in the Russian business environment was identified in literature (Barnes et al., 1997; Michailova & Worm, 2003). The empirical analyses investigate to which extent previously mentioned findings can be applied on the case of medical technical companies.

3. Methodology

The presentation of the empirical research process, which is based on the previously introduced framework (section 2.5), is presented in the following. The primary objective of this chapter is to provide detailed insights into the research process. In the first instance, the research approach (section 3.1), the research method (section 3.2) and the research design (section 3.3) are described. Afterwards, the case study methodology is presented in section 3.4.
3.4, followed by the evaluation of the scientific quality of the gathered data in section 3.5. Finally, section 3.6 describes how the analysis of the data is conducted.

3.1 Relation between Theory and the Generation of Knowledge

In general, there are two perspectives of how to determine the relationship between theory and the generation of knowledge: the deductive and the inductive approach. The **deductive approach** applies already existing theories on empirical data in order to examine whether a certain theory is reliable and valid (section 3.5) (Saunders, Lewis, & Thornhill, 2009). Accordingly, the deduction of hypothesis or assumptions which result from already existing theories is followed by their empirical verification or falsification. This procedure implies that the research process begins with the examination of available theoretical data related to purposes and research questions of an analysis, followed by the deduction of at least one hypothesis or assumption. Moreover, the collection of empirical data and the deduction of findings is the second step of an analysis. Finally, hypothesis or assumptions are examined and the initial theory is, if necessary, revised (Bryman & Bell, 2007). The **inductive approach** develops new or improves already existing theories through the examination of empirical data (Saunders et al., 2009). This process is conducted through the observation of facts and the formulation of prepositions after relationships between different variables were examined. Consequently, new theories can be developed in relation to the investigated findings (Bryman & Bell, 2007).

The objective of this thesis is to investigate if already existing findings and theories in relation to business-impacting changes within the Russian Federation can be applied on companies operating in the medical technical sector. Moreover, it is investigated to which extent certain findings related to the network theory can be applied on the case of medical technical companies in the Russian market. Thus, the development of a new theory does not meet the purpose of this thesis and that is why the deductive approach becomes more suitable. However, the empirical analysis requires also inductive thoughts. It cannot be excluded that further business-impacting changes, which have not been considered in the literature discussion of this thesis (chapter 2), are identified. Thus, the focus of this analysis is mainly led on a deductive approach but respects also to the empirical findings which describe phenomenon that have not been considered before. This procedure is supported by Chad (1998) who state that the exclusive focus on one of the two approaches can limit not only the obtainment of benefits from existing theories but also the development of new models. Thus, the exclusive consideration of one of these approaches can have negative influences on the research outcomes, whereas an interrelation between both facilitates the process of theory development or enhancement.

3.2 Research Strategy

In general, two types of research strategies are available in the process of knowledge generation: these are quantitative and qualitative strategies. The main distinction between both strategies is that quantitative research utilizes different measurements to observe certain phenomenon while qualitative research does not (Bryman & Bell, 2007). However, the differences between these strategies are not a question of quantification but more a reflection
of different perspectives on knowledge and research objectives. **Quantitative sciences** focus on the description of attitudes. This is realized through highly representative random examinations such as large scale surveys. Based on these surveys, models which describe the correlation of different characteristics are developed before final results are concluded on the basic population (Saunders et al., 2009). In contrast, **qualitative sciences** are a mixture of rational, explorative and intuitive approaches related to the respective analytical skills and experiences of researchers (Ghauri & Grønhaug, 2005). Qualitative research strategies do not imply statistical examination (Bryman & Bell, 2007) but like quantitative strategies their objective is to display the reality of test subject in order to understand possible connections between different phenomena, too (Saunders et al., 2009). Summarized, qualitative research strategies are more flexible and open in comparison to quantitative research strategies. However, qualitative data can be quantified in a way that a statistical analysis can be performed. Thus, both methods are not mutually exclusive (Ghauri & Grønhaug, 2005).

A flexible and open qualitative research strategy allows to take factors into account which have not been considered before. This fact is advantageous for this research project since it cannot be excluded that further business-impacting changes which have not been outlined in the literature discussion (chapter 2) are identified. Furthermore, the utilization of a qualitative research strategy implies that acquired data can be interpreted in a far more unforced way than quantitative strategies would follow. The decision to apply a qualitative strategy in this research project was determined by the previously introduced advantages.

### 3.3 Research Design

The research design is considered to be a blueprint which displays the development of research processes (Yin, 2003). It describes how an analysis is conducted and includes the methods as well as procedures needed to obtain required data. Furthermore, the research design controls the research progresses and monitors digresses into none valid research directions. Furthermore, constraints of the research such as limitations in time and money are displayed in the research design (Ghauri & Grønhaug, 2005).

The formulation of research questions and the planning of scientific investigations is the first step in the development of a research design (Babbie, 1998). In general, research designs contain three major elements: (1) the type of research question, (2) the extent of control the researcher has over actual behavioral events, and (3) the degree of focus on contemporary as opposed to historical events (Yin, 2003). Most designs have different attributes and are exclusively suitable for one particular kind of research strategy. In order to determine a suitable research method it is necessary that the research problem and focus of the research project have already been identified (Churchill & Iacobucci, 2004). The most common forms are sectional, longitudinal, comparative and case study designs (Bryman & Bell, 2007). The reasons why a case study design is considered to be the most appropriate for the empirical analysis of this research project is described in the following.

Case study designs are defined as “[…] a methodological approach that involves the in-depth exploration of a specific bounded system, utilizing multiple forms of data collection to systematically gather information on how the system operates or functions.” (Mills, Durepos,
Moreover, Yin (2012) identifies three major determinants which lead to the decision whether a case study is an appropriate research design. The first determinant depends on the formulated research question. If either a descriptive question (“What is happening or has happened?”) or an explanatory question (“How or why did something happen?”) has to be answered, a case study is an effective research design. The second determinant is the question if a phenomenon within its “real-world” context is investigated. Case studies favor the collection of data in natural settings and do not rely on artificially derived data like responses to questionnaires. A case study is also appropriate when evaluations are conducted in order to assess data which describes what certain activities (e.g. certain programs, practices, projects or policies) have accomplished. This is considered to be the third determinant (Yin, 2012).

The choice to use a case study design for this research project was made as a result that all previously mentioned determinants are fulfilled. The research questions of this thesis are the following:

1. How do recent and upcoming business-impacting changes within the Russian market affect companies operating in the medical sector?
2. How can networks support firms in the medical technical sector to confidently deal with recent and upcoming business-impacting changes within the Russian market?

According to the previously introduced findings, the questions have an explanatory nature. Moreover, both questions aim to investigate different impacts, such as of different political programs, on medical technical companies in the Russian market. Thus, both a “real-world” context is given and the accomplishment of political programs is investigated.

### 3.4 Research Method - Case Study Methodology

Different kind of research methods and their appropriate field of use are identified in literature (Bryman & Bell, 2007; Ghauri & Grønhaug, 2005; Saunders et al., 2009). In order to enable the reader to follow and understand the research process, specific research methods which were chosen to be relevant for this research project are outlined in the following.

According to Ghauri and Grønhaug (2005) research methods are defined as a systematic, focused and orderly collection of data for the purpose to obtain information and answer particular research questions. Thus, the choice of a particular research method determines at the same time which data collection method is most suitable to answer the formulated research question(s). Decisions for appropriate research methods have to be taken carefully due to the fact that inappropriate methods have most certainly negative influence on the empirical results. It has to be taken into consideration that different kinds of methods differ in their techniques which are used to obtain data but not in their overall quality (Bryman & Bell, 2007).

It was already seen that the case study design is considered to be the most appropriate for the empirical analysis of this research project (section 3.3). Case studies vary in their nature and can be divided into explanatory, exploratory or descriptive studies. **Explanatory case studies** are conducted in the case that explanatory research questions were formulated (section 3.3).
These kind of questions determine operational links between certain phenomena. The focus of explanatory case studies is the explanation of certain behaviors as well as the determination of causes and effects within relationships. Furthermore, explanatory case studies are moved in favor when observed events can hardly be controlled and when the main research focus of an analysis is led on a contemporary phenomenon within a real-life context (Yin, 2012). **Exploratory case studies** gave case studies their overall notorious reputation (Bryman & Bell, 2007; Yin, 2012). Their objective is to develop theories through the observation of certain social phenomenon in their natural form. The final definition of the research question and the determination of specific methodological procedures are not specified before the fieldwork and data collection have been undertaken. For this reason it is argued that empirical results were already predefined. Moreover, the research process follows intuitive paths what is often considered to be “sloppy” (Mills et al., 2010; Yin, 2012). **Descriptive case studies** aim to describe certain phenomenon within their social context. The objective of these kinds of case studies is either to determine the frequency with which certain phenomenon occur or to determine the specific relationship between two variables (Churchill & Iacobucci, 2004; Yin, 2012). It has to be taken into consideration that all three introduced classifications of case studies are not mutually exclusive (Yin, 2003). The research project of this thesis follows an approach which is most closely approximate to the explanatory research method because business-impacting changes and their effects on companies operating in the medical technical sector are investigated.

Moreover, it can be distinguished between single and multiple case studies. Multiple case studies include several bounded cases as well as multiple data collection processes. The implementation of multiple case studies provide, in comparison to single case studies, more extensive descriptions and explanations of the investigated phenomena. The realization of cross-case examinations allows an in-depth understanding of investigated phenomena and lead, under certain circumstances, to an increased generalizability of the findings (section 3.5). The identification of cause-and-effect relationships is advantageous because the examination of similarities and differences across cases strengthen the underlying theory. A common multiple case design includes at least two cases that aim to investigate a certain phenomenon under replicable conditions (Mills et al., 2010; Yin, 2003).

In the scope of this research project, three cases are analyzed in order to determine the role of networks and the influence of business-impacting changes on companies operating in the Russian medical technical sector. Thus, a multiple case study was conducted. A more detailed presentation of the cases is given in **section 3.4.1**, followed by a discussion of the scientific quality of the acquired data in **section 3.4.2**.

### 3.4.1 Selection of Cases

After a careful consideration, Getinge AB was chosen to become the research object of this thesis. The Getinge AB is a Swedish-based group of companies and the leading provider of products and systems which deliver high quality solutions for healthcare and life science sectors worldwide. In 2008, the group achieved sales revenues of 2000 million Euros with a workforce of 11,500 employees. Getinge AB operates decentralized under the three brands...
Getinge, Arjohuntleigh and Maquet (Getinge Group HP, 2012). All members are briefly introduced in the following before this particular selection of cases is justified.

**Getinge** provides solutions for infection control and contamination prevention in the health care and life science sector. The company is worldwide the leading exporter for sterilizers, cleaning and disinfection devices which are used to disinfect medical tools. These devices are produced in manufactories in Sweden, Germany, France, China, Great Britain, Australia and the USA. Moreover, Getinge is supported by more than 230 distributors and partner companies in sales and service (Getinge Group HP, 2012).

**Arjohuntleigh** was established in 2007 through a merger of the companies Arjo and Huntleigh Technology. The company focuses on patient mobility and wound management solutions and is today one of the world’s leading providers of technical care and medical products. Their product portfolio includes a variety of different products such as integrated solutions for patient handling and hygiene, medical beds and therapeutic surfaces, wound healing etc.. Moreover, their overall vision is to become the world leader in integrated solutions which aim to facilitate the life of people with reduced mobility (Arjohuntleigh HP, 2012).

**Maquet** is a supplier for medical systems which support surgeries, cardiovascular medicine and procedures for intensive care. For reasons states below, Maquet is not involved in this research project and does not undergo a detailed reflection.

A company visit in the headquarter of Getinge has determined this particular selection of cases. The global provider for sterilizers and other medical device products looks back on considerable experience in the Russian market. Problems, threats and opportunities of this market were discussed from the viewpoint of this company and the readiness to talk was great. It was stated that the current operations in the Russian market are satisfying but the company strives to expand their activities considerably. The intentions meet the research focus of this thesis. Limitations of the way of doing business in the Russian Federation as well as expectations about recent and upcoming business-impacting changes are of interest for both parties. Moreover, further contacts to Arjohuntleigh were provided. Although both organizations belong to the same group, all members take their decisions independently without mutual agreements. The access to another medical technical provides the opportunity to compare different cases in terms of their experiences and expectations. Initially, also Maquet has been considered to become a research object in the scope of this thesis but an interview currently did not fit into the timetable of the company.

Moreover, contacts to Swecare and the Swedish Trade Council in Moscow (in the following Trade Council) were provided. Both institutions are briefly introduced before their purpose for this research project is outlined.

**Swecare** is a Swedish health care foundation which was established in 1978 as a non-profit organization. It was founded with the aim of unifying the Swedish health care sector. Today, 350 companies and organizations which represent all parts of the health care spectrum are part of a network. This network supports Swedish health care companies to overcome challenges and to get operational in foreign markets (Swecare HP, 2012).
3. Methodology

The **Swedish Trade Council** is besides Moscow also present in St. Petersburg and Kaliningrad since 1994. It is in equal parts owned by the Swedish government and private entities. Similar to Swecare, its objectives are provision of solutions to facilitate business development in the Russian market for Swedish companies. The Trade Council acts as a consultant, which supports Swedish businesses through the help of local presence, networks and deep knowledge of the market and its surrounding culture (Swedish Trade Council HP, 2012).

The interviews with both institutions were initially conducted with the aim of narrowing down and connecting findings from previous research about the business environment of the Russian Federation and the role of networks in this particular market. Both institutions interact with the Russian market and trace its development for several decades. Thus, Swecare and the Trade Council not only gained a lot experience and detailed knowledge but also well-developed networks were built up. Consequently, the conducted interviews contain a considerable amount of information relevant to answer both research questions. For this reason, they contributed considerably more to the analysis than initially assumed and are considered to support the previously introduced cases. In the following, the term “case-support interview” is referred to these interviews.

### 3.4.2 Collection of Data

In general, it can be distinguished between primary and secondary data. The former one is directly obtained by knowledgeable individuals while secondary data originates from already published research conducted by third parties (Bryman & Bell, 2007). Secondary data originates from e.g. payroll details, copies of letters, records of meetings or surveys (Saunders et al., 2009). According to Yin (2012) a case study approach is inseparably likened to the collection of primary data, as it was consequently done in the scope of this research project. In practice, there are various possible ways to collect primary data (Yin, 2012):

- Direct observations (e.g. human actions or physical environments)
- Qualitative interviews (e.g. open-ended conversations with key participants)
- Archival records (student records)
- Documents (e.g. newspaper articles, letters, e-mails, reports)
- Participant observation (e.g. being identified as a researcher but also filling a real-life role in the scene being studied)
- Physical artifacts (e.g. computer downloads)

As a result that qualitative interviews were conducted in order to get the data relevant for this research project, further explanations are limited to this kind of primary data source. Qualitative interviews differ from quantitative interviews in the fact that the later ones follow strict and structured guidelines. Qualitative interviews are less structured and a greater interest in the detailed interviewee’s point of view is given. Furthermore, qualitative interviews provide the option to depart from previously defined guidelines in order to follow promising and unexpected research paths (Bryman & Bell, 2007).

There are two major types of qualitative interviews: unstructured and semi-structured interviews. **Unstructured interviews** do not follow guidelines and not only a single topic but
a wider range of different topics are treated. In this case, the interviewer is supposed to take a back seat and led the interviewee follow his train of thoughts (Bryman & Bell, 2007; Mills et al., 2010). During a semi-structured interview, the interviewer follows a predefined interview guide which covers a fairly specific topic. The questions do not have to be asked exactly as outlined in the interview guide and thus, the interviewer can follow different directions in order to get a better understanding of the overall topic (Bryman & Bell, 2007). The aim of this kind of interview is to reveal how case study participants construct the reality and evaluate certain situations instead of providing predefined answers to specific questions. For that reason, the interviewees should be selected wisely in order to gain as many useful insights as possible (Yin, 2012). For the empirical analysis of this thesis, semi-structured interviews were chosen as a method to acquire primary data. In relation to the deducted framework which is taken as a basis for the empirical analysis, interview questions are formulated and assigned to specific topics of interests (e.g. political programs, WTO membership, health care reforms). Thus, the interview is guided in a certain direction of interest but the ability to follow unforeseen answers which point towards other directions is provided. According to Bryman and Bell (2007) it is crucial to document interviews in order to avoid misinterpretations, confusions or the loss of information. For this reason, all interviews were recorded and notes were taken during the conduction. All interviews were conducted via telephone or face to face. The collection of primary data was done with the assistance of an interview guide which is presented in Appendix 1. This interview guide has been used as a basis for all four interview and during the conduction it was decided from case to case on which question it is put most emphasis.

In order to build a basis for this thesis and to develop a framework, also various kinds of secondary data, including reports, surveys and published research which deal with the purpose of this thesis have been critically examined (chapter 2). For the empirical analysis, findings serve as a triangulation with the findings from the case studies. This procedure has the purpose to answer the research questions and to increase the overall scientific quality of this research project.

### 3.5 Scientific Quality of Data

According to Bryman and Bell (2007) there are multiple types of tools available which evaluate the overall quality of qualitative research. The explanatory power of scientific data is measured through its reliability and validity. **Reliability** refers to the consistency of measurements and evaluates the extent to which measurement procedures provide the same answer whenever they are carried out again under the same conditions (Connaway & Powell, 2010). Several authors state that a reliability discussion in qualitative research projects is misleading and has direct negative influences on its overall quality (Golafshani, 2003; Stenbacka, 2001). According to Golafshani (2003) qualitative sciences focus on the understanding of social phenomenon and that is why the evaluation of reliability is irrelevant for qualitative studies. Thus, the level of reliability is not discussed for this research project. The **validity** of data refers to the extent applied methods really measure what they intend to measure (Kirk & Miller, 1986). In qualitative research "[...] validity is not a single fixed concept but rather a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects” (Winter, 2000, p. 1). It can be
3. Methodology

distinguished between three types of validity: construct, external and internal validity. As a result that all three types are relevant to evaluate explanatory case studies (Yin, 2003), all of them are introduced in the following.

The **construct validity** is based on logical judgments and external criteria (Connaway & Powell, 2010). A high degree of construct validity is given if the studied concepts are correctly operational measured. However, it is difficult to achieve a high level of construct validity for case studies because it is difficult to develop a sufficiently operational set of measurements. In order to increase the construct validity, the use of multiple sources of evidence is recommended. Furthermore, the establishment of chains of evidence and the review of study reports by key informants are other methods to do so (Yin, 2003). The measures of this case study are the interview information which reflect recent and upcoming business-impacting changes. As a result that four different interviews with independently operating organizations were conducted, the findings of this thesis rely on multiple sources of evidence and supply this research with a significant level of construct validity.

The **external validity** evaluates to which extent findings are generalizable. A high degree of generalizability indicates that the results of a case study can be applied on a wider range of cases. Critics state that single case studies offer a poor basis for generalization and often provide limited external validity (Yin, 2003). An answer to the question: “How many cases are appropriate?” in order to support findings with a high level of external validity does not exist but it is stated that the confidence and certainty of data increases the more cases are observed. However, it is important that all selected cases provide useful support for the initial purpose (Yin, 2012). Conclusively, it is not enough to have multiple cases to ensure generalizable findings but these findings have to be tested on other cases. This procedure is called replication logic and is also used in scientific experiments in order to cumulate knowledge across experiments (Yin, 2003). Thus, it cannot be concluded that this research project possesses of a high degree of external validity only because a multiple case design was conducted. In order to strengthen the external validity, the empirical analysis of this research project is based on a deducted framework (section 2.5) which facilitates the imitation of the research process. Thus, the probability that other researchers draw the same or similar conclusions when the same framework is applied on other cases is high and a relatively high level of external validity is given.

The **internal validity** is exclusively a concern for explanatory case studies and therefore relevant for this research project (section 3.4). If the researchers incorrectly conclude a causal relationship between event “x” and outcome “y” without taken into consideration that a third factor “z” may have caused of influenced “y”, the research has only a moderate internal validity. For this reason it has to be ensured that all rival explanations have to be taken into account. In order to ensure a high degree of internal validity, the credibility of the inferences can be improved through analytic tactics such as pattern matching and explanation building (Yin, 2003). For reasons being outline in section 3.6, this research project applies pattern matching in order to ensure a high degree of internal validity.

According to Yin (2012) it is often difficult to defend the findings of single case studies whereas multiple case studies deliver a high explanatory power of their findings. In order to
ensure the acquisition of useful and relevant information as well as the avoidance of biased and not honest answers, it is important to choose interview partners carefully (Churchill & Iacobucci, 2004; Ghauri & Grønhaug, 2005). For these reasons, the interview partners for this research project were chosen advisedly and are presented in the following:

**Swecare**

The interview partner is senior advisor for Swecare and possesses considerable experience in the Russian market in general and the health care sector in particular. This experience was gained through activities as CEO of the Stockholm County Council between 1997-2001. Moreover, he contributed to reforming processes of the health care system in Nord-West Russia as an advisor for more than one decade. During this time, he supported the public health committee in St. Petersburg in various questions related to reforming processes.

**The Swedish Trade Council in Moscow**

The interview was conducted with the head of the Trade Council in Moscow who fills this position, after having been senior project leader between March 2005 and October 2010, since October 2010. His Russian origin supports to gain a different point of view and to discuss how previously introduced limitations in the way of doing business are evaluated by local contact persons.

**Arjohuntleigh**

The interview partner is regional manager for distributor markets in Eastern Europe including Russia, Lithuania, Romanian, Bulgaria, Greece, Turkey, Cyprus and Malta. He exclusively deals with distributors and retrospects on experiences in this particular field for more than one decade. His diverse experiences provide a basis to evaluate and compare certain findings with regard on other countries and prevailing business characteristic there.

**Getinge**

The interview partner is sales director for the geographical area around the Russian Federation. He exclusively works with distributors in twenty active countries reaching from Eastern Europe over Island, Greece, Israel and Japan. Experiences with a considerable amount of different countries supports the ability to evaluate certain findings on a comparative basis.

### 3.6 Analysis of the Data

The case study analysis is one of the least developed and most difficult aspects of conducting case studies as a result that the analysis can take various forms but none follows the strict routines that exist for quantitative research methods (Yin, 2012). Moreover, clear and general accepted rules to analyze qualitative data do not exist. The analysis of qualitative data is based on a large corpus of unstructured materials like interview records and field notes. Researchers have to avoid that an overwhelming amount of data leads to an “analytic interruptus” which causes an inefficient analytic process (Bryman & Bell, 2007). Therefore, Bryman and Bell (2007) consider the analytic induction and the grounded theory as two approaches to analyze qualitative data.
3. Methodology

The **analytic induction** tests hypothesis and redefines or reformulates inconsistent hypothesis after the analysis has been conducted. Thus, the analytic induction is an exact method and already a single inconsistency leads to further data collection processes or to adjustments of the hypothesis. The analytic inductive analysis process specifies the sufficient (but not the necessary) conditions for the phenomenon to occur in order to provide answers (Bryman & Bell, 2007). Furthermore, the aim of the analytic induction is the development of new theories rather than the testing of already existing theories (Bryman & Hardy, 2009). For this research project, an analytic induction may provide evidence why companies with certain characteristics are influenced by recent and upcoming business-impacting changes in the Russian market but not why some companies are more successful than others. That is why it becomes difficult to draw conclusions from political or economical business-impacting changes. The **grounded theory** aims to develop theories. A key process in this approach is the coding of data. This process facilitates to deal with considerable amounts of data because it helps to break them down into several components. This can be done through field notes or by reviewing transcripts (Bryman & Bell, 2007). Another strength is that processes can be explained in new theoretical concepts with the ability to show under which circumstances and with what consequences a process is created and/or developed (Klein, 2010). As a result that the aim of this thesis is not to develop a new theory, this theory is not applicable and additional approaches are considered.

Yin (2003) discusses three general analytic strategies to transform data out of case studies into valuable findings. These strategies underlie specific analytic tools which are described in the following. A common approach is to rely on **theoretical propositions** in order to conduct a case study. This approach supports researchers to distinguish between relevant and irrelevant data. Furthermore, the prepositions help to organize the entire case study and to find alternative explanations for inconsistent findings. Another analytical strategy handles **rival explanations**. This strategy is related to the first strategy but even relevant when no theoretical prepositions are given and especially useful in the evaluation of case studies. The examination and definition of rival explanations for the studied phenomenon is its general objective. A further strategy to analyze data is the development of a **case description**. Its primary aim is to develop a descriptive framework in order to organize the case study. This strategy is especially useful for the analysis of descriptive case studies but it is less favorable for exploratory and explanatory case studies (Yin, 2003).

After the analytic strategy is determined, it has to be decided which specific analytic technique is most appropriate for the analysis (Yin, 2003). Available analytic techniques are described in the following. The **pattern matching** logic is a favorable analytical tool because empirically based pattern are compared with previously predicted ones. Empirical patterns which are conform with previously defined patterns strengthen the internal validity of the case study (Yin, 2003). An application of this analytic technique implies that patterns are precisely specified before a final matching procedure is undertaken (Hak & Dul, 2008). **Explanation building** is a special form of pattern matching but the procedure is more difficult. The objective is to analyze the case studies data by building explanations about the case and to develop ideas for further studies. This procedure is mainly relevant to exploratory case studies. In order to explain a phenomenon, causal links are needed and considered as independent
variables. It is possible to explain these links in narrative imprecise form or with help of prepositions described in theory (Yin, 2003). For multiple-case designs the use of replication logic can be promising in order to identify highly reliable and valid findings along all cases considered. This cross-case synthesis is used to support broader patterns of conclusions when the number of cases considered is too small to use any quantitative analytic tools. The replication or corroboratory frameworks can vary heavily depending on the type of replication. On a direct replication, the single cases would be predicted to come to similar results. On a theoretical replication, each single case’s ultimate disposition would have been predicted beforehand but each case should have been predicted to produce a varying or even contrasting result which is based on the preconceived proposition (Yin, 2012).

This research project follows the theoretical preposition strategy because it suits best to answer the research questions and to focus on valid information. For this reason a theoretical framework is developed (section 2.5) in order to provide theoretical explanations of causations between various factors influencing companies operating in the medical technical sector within the Russian Federation. Explanation building is chosen as a concrete analytic tool because on the one hand, it is a special case of pattern matching what provides the case study with additional internal validity. On the other hand, it suits best to answer the research questions because the development of explanations out of the empirical and theoretical findings is required. These explanations deal with the influences of recent and upcoming business-impacting changes for companies operating in the medical technical sector within the Russian Federation.

4. Analysis

In the following, the empirical analysis of this thesis investigates to what extent the identified recent and upcoming business-impacting changes affect companies operating in the Russian medical technical sector. Furthermore, the role of networks related to approaches with these changes is analyzed. The framework in section 2.5 summarizes identified changes as well as the importance of networks for the Russian market. Moreover, probable impacts on companies operating in the medical technical sector are highlighted. In literature identified findings can be applied on various industries while the objective of this empirical analysis is to investigate the impact on medical technical companies in particular. For this purpose, the analysis is divided into three subchapters. In a first instance, the case-support interviews with Swecare and the Trade Council are analyzed (section 4.1), followed by the interviews of the case companies Arjohuntleigh (section 4.2) and Getinge (section 4.3).

4.1 Case Support Interviews

In line with the research questions, the following analysis is divided into two parts. Each section focuses on institutions operating in the medical technical sector. In section 4.1.1, the impact of recent and upcoming-business impacting changes as well as of recent health care reforms are analyzed. Based on that, the role of networks is investigated in section 4.1.2.
4. Analysis

4.1.1 Recent and Upcoming Business-Impacting Changes

In the following, impacts of a WTO Membership (section 4.1.1.1), wealth increases (section 4.1.1.2), different political programs (section 4.1.1.3) as well as health care reforms (section 4.1.1.4) on medical technical companies is analyzed. Moreover, it is investigated how networks support firms to utilize recent and upcoming business-impacting changes confidently (section 4.1.2).

4.1.1.1 Membership of the World Trade Organization

After successfully undertaking the lengthy process of obtaining a membership, the Trade Council (2012) states that the membership of the WTO will be in power from October 2012 onwards. According to the Trade Council (2012) and Swecare (2012) the membership of the WTO is considered to have in the short run, only a moderate impact on companies operating in the medical technical sector.

Summarized, both institutions agree that (Swecare, 2012; Trade Council, 2012):

a WTO membership contains for foreign medical technical firms “[…] a lot to win and nothing to lose.”

Both institutions expect that the membership will lower both tariff and nontariff trade barriers to some extent and advance within certain boarder, the implementation of standardized regulations in order to create a more competitive business environment (Swecare, 2012; Trade Council, 2012). These statements are in line with the findings of Blankenagel (2000) and Tarr (2007) who discuss the membership as a development of the Russian Federation towards an open trade economy. In connection to the membership, also the reduction of tariff and nontariff barriers, e.g. the considerable extent of bureaucracy related to the establishment of a market presence (Makeyenko et al., 1999) and prevailing corruptive activities (Yakovlev, 2001), is expected by several authors (Jensen et al., 2007; Kuchins et al., 2008; Radaev, 2002). Consequently, the access to the Russian market will be facilitated not only for companies operating in the medical sector but for companies of diverse industries (Swecare, 2012; Trade Council, 2012), as it was also stated by Blankenagel (2000) and VM Consult (2011).

Swecare (2012) states that the competitive situation of companies operating in the medical technical sector is likely to change. As it was described by Espicom Business Intelligence (2012) domestic Russian producers have cost advantages. However, a more open trade economy promotes the competitive situation of medical technical companies. Swedish medical device companies can take advantage of their favorable reputation concerning quality and at the same time increase their presence in the Russian market (Swecare, 2012). Nevertheless, both institutions evaluate the actual extent of business-impacting changes resulting from the membership as moderate (Swecare, 2012; Trade Council, 2012), whereas the introduced literature indicates considerable changes (Blankenagel, 2000; Kuchins et al., 2008; Tarr, 2007). Reasons for the reserved attitude of both institutions are that the Russian government still promotes and protects considerably local production (Swecare, 2012; Trade
Council, 2012). In addition, Swecare (2012) states the health care development of larger urban areas is highly prioritized while smaller regions are neglected:

“In one way it is Russia, the modern capitalistic system but in another way, it is still a little bit Soviet Union.”

Both institutions perceive this fact as the reason why potential positive effects of a membership in terms of lower trade barriers and a more open market economy will need up to 10 years and do not occur in the short run (Swecare, 2012; Trade Council, 2012). This statement is in accordance with the expectation of Blankenagel (2000) and Jensen et al. (2007) who recognize that essential changes can only be achieved in the long run. The Trade Council (2012) concludes that a WTO membership today does not play an important role in the determination of business strategies of companies operating in the medical sector since short term influences are hardly noticeable. However, according to Swecare (2012) a WTO membership should not be completely neglected since:

“In Russia you never know what will happen next Monday.”

Summarized, the interviewed institutions generally agree to changes resulting from a Russian membership of the WTO identified in literature. However, the extent to which these changes will occur is considered to be moderate. That is the reason why medical technical companies currently pay only limited attention to the accession. Concluding from these findings, the assumption that turnovers and revenues of foreign medical technical companies will increase through an enhanced competitive environment which results from the WTO membership is not supported to the same extent as it was expected.

4.1.1.2 Increasing Overall Wealth

In comparison to the WTO membership, it is stated that an increasing overall wealth of the Russian population will have a considerably higher impact on companies operating in the medical technical sector (Swecare, 2012; Trade Council, 2012).

As public health care provision is perceived as of moderate quality, an increasing demand for private health care is prevailing. This is induced by an increasing overall wealth among the Russian population (Swecare, 2012; Trade Council, 2012). This fact extends the findings of Mroz and Popkin (1995) as well as Mu (2006) who describe the establishment of economic private sectors as one origin of the increasing economic wealth. According to Swecare (2012) this wealth in turn promotes growth and the financial situation of the private health care sector and a cycle is generated.

Today, the private health care market has a market share ranging from 20 to 25% in St. Petersburg with a strong tendency to increase (Swecare, 2012). As is was stated by Parfitt (2009) the private net of health care facilities regulates considerable financial resources and ensures high quality health care provision through qualitative medical equipment. However, the demand for high quality products cannot be satisfied by a majority of the domestic producers (Swecare, 2012). Regarding the question as to whether foreign medical technical companies should focus on private health care institutions, Swecare (2012) replied:
“Indeed. Although it is hard to realize right now, as more than 70% of the health care institutions are still publicly owned. However, the private sector is growing at a good pace.”

In comparison to the membership of the WTO, the increasing overall wealth is perceived to influence companies operating in the medical technical sector noticeably stronger. The development of the private health care sector and the establishment of further private health care institutions are encouraged as long as the efficiency and reputation of public health care provision is not changing. Thus, the assumption that the increasing overall wealth of the Russian population will influence the order volume of medical technical companies positively is supported by both interviewed organizations.

4.1.1.3 Influences of Recently Launched Political Programs

Several political programs\(^7\) which are launched to improve the general business environment and to reduce the level of corruption as well as the extent of bureaucracy have been identified (section 2.1.3.3). In the following, the impact of political programs regarding the business environment (section 4.1.1.3.1), the extent of corruption (4.1.1.3.2) and bureaucracy (4.1.1.3.3) on medical technical companies operating in the Russian market is analyzed.

4.1.1.3.1 Influences on the Business Environment

In order to promote a further development and growth of the Russian private sectors, the government launched different political programs to enhance conditions of the overall business environment. These political programs are perceived to currently improve conditions for companies operating in the medical technical sector whereas long term implications are uncertain (Swecare, 2012; Trade Council, 2012).

According to Swecare (2012) and the Trade Council (2012) the Russian government launched political programs which influence the business environment in order to be less dependent on the extraction of natural resources. A shift towards an innovative and high-tech economy is desired. These objectives are consistent with those identified in literature (Bjorkman, 2003; Ministry of Education and Science of the Russian Federation, 2009; OECD, 2011). The technological modernization of the economy also includes medical technical equipment used in relation to health care provision. However, the fact that the technological advancement of the Russian Federation is underdeveloped has currently positive implications for foreign companies operating in the medical technical sector as more medical devices are imported (Swecare, 2012). This statement confirms the statistic of Germany Trade & Invest (2009) who calculate that more than 80% of the medical equipment of the Russian Federation is imported. Moreover, the explanation of Espicom Business Intelligence (2012) stating that Russian medical device producers cannot compete with Western products in terms of quality is confirmed.

\(^7\) All four interviewed institutions are not aware of every single program and its detailed objectives as they are listed in section 2.1.3.3. However, all of them are familiar with the general content of these programs and their impact on the Russian business environment.
Although the demand for medical device products is increasing, the current advantage is declining in the long run (Swecare, 2012; Trade Council, 2012). The Trade Council (2012) states:

“Especially for medical devices, our knowhow is underdeveloped and we are heavily dependent on imports. However, the state is motivating increasingly local production and foreign direct investments.”

Nowadays, outcomes of different programs are noticeable in practice but objectives formulated by the Ministry of Education and Science of the Russian Federation (2009) are far from being realized yet (Swecare, 2012). The reason for this fact is that larger cities like Moscow and St. Petersburg are prioritized in the reforming processes whereas rural areas are neglected (section 4.1.1.1) (Swecare, 2012; Trade Council, 2012). These limitations have neither been stated by the OECD (2011), which currently evaluated first outcomes of corresponding programs, nor by other authors as Bjorkman (2003) or Radosevic (2003).

Keeping this limitation in mind, both interviewed organizations state that different political programs launched to enhance the overall business environment of the Russian Federation will at least in the short run have, especially in larger urban areas, considerably more influence on the competitive environment than the membership of the WTO. Essential changes in the scientific and technological development are already noticeable and will be further promoted (Swecare, 2012; Trade Council, 2012). The statements are in line with the positive evaluations of political programs influencing the business environment as judged by the OECD (2011).

Summarized, both institutions state that medical technical companies are currently benefiting from the increasing competitive situation which results from launched political programs to enhance the overall business environment. Thus, the assumption that identified political programs enhance the business environment of the Russian Federation and simultaneously enable medical technical companies to increase their market share is supported. However, as soon as the Russian Federation will be able to adopt their technological knowhow to Western standards, the market share of foreign medical device companies is likely to decrease again.

4.1.1.3.2 Influences on the Extent of Corruption

Swecare (2012) as well as the Trade Council (2012) state that doing business in the Russian Federation is connected at least to some extent to corruptive activities.

“It is a very rough and bad market with very much corruption. It is nearly impossible to avoid the corruption side of the business.” (Swecare, 2012)

These statements are in line with the findings of Aidis and Adachi (2007) as well as Anttonen et al. (2005) who state that the avoidance of illegal business practices during operations in the Russian market is nearly impossible. However, corruption has become a generally excepted and grounded part of business life (Swecare, 2012):

“Corruption is a part of the business and it is accepted by all.”
4. Analysis

That is the reason why different political programs launched to reduce the extent of corruption are considered to have just a moderate impact on companies operating in the medical technical sector (Swecare, 2012; Trade Council, 2012).

Medical technical companies are participating in tender processes which are used by state hospitals which aim to (re)equip their medical devices on a grand scale (Germany Trade & Invest, 2009). According to Swecare (2012) these processes provide considerable potential for corruptive acts that aim to influence the outcome of tenders. Therefore, it is an important question for every medical technical company to decide whether they want to directly be involved and acquire the knowledge of how to deal with it or if they let a third party take this task. Both intuitions doubt that political programs and harsher punishments of corruptive activities lead to considerable changes because corruption is deeply anchored in the Russian business environment (Swecare, 2012; Trade Council, 2012). These statements question the chance of success for the former President Dmitry Medvedev who launched a whole range of political programs with the aim to effectively fight corruption (Babich, 2008).

In conclusion, both institutions state that corruption will also in the future have influences on medical technical companies but the overall degree might decrease to some extent. Thus, the assumption that the launch of different political programs which target to fight corruption are likely to facilitate the way of doing business in the Russian Federation and lead to an increasing market share of medical technical companies is not supported by this institutions.

4.1.1.3.3 Influences on the Extent of Bureaucracy

Although the Trade Council (2012) states that bureaucracy within the Russian Federation is not more complicated than in China or Brazil, both institutions agree with Aidis and Adachi (2007), Devan et al. (2011) as well as Makeyenko et al. (1999) who state that the extent of bureaucracy is indeed on a high level. In line with their attitude towards the impact of political programs targeting to fight corruption, both institutions doubt that political programs succeed to decrease the overall amount of bureaucracy relevant for companies operating in the medical technical sector (Swecare, 2012; Trade Council, 2012).

Companies operating in the medical technical sector feel the “extraordinary” complex bureaucratic processes (Makeyenko et al., 1999), especially during the registration process of their products (Swecare, 2012). Every medical technical product has to be approved before the company gets a certificate for it and can sell it in the Russian market (Germany Trade & Invest, 2009). It is stated that without a reliable partner, this process needs a considerable amount of time and money to complete, especially for foreign firms (Swecare, 2012). This statement is in line with the finding that a whole authorization process costs up to 10,000 Euros per product (Germany Trade & Invest, 2009). Moreover, the tender processes used by hospitals to disperse their orders for new medical technical products is often intransparent and requires experience (Swecare, 2012; Trade Council, 2012). Both processes can be influenced with payments to accelerate bureaucratic processes (Swecare, 2012). According to Jain (2001), Radaev (2002) and Yakovlev (2001) these payments are perceived to be legal within the Russian Federation. However, for companies operating in accordance to western-oriented principles are these payments considered as a corruptive act (Swecare, 2012; Trade Council,
2012). Diplomatic efforts to reduce bureaucracy lack systematic approaches. It is therefore stated that as long as the extent of corruption is unlikely to decrease, administrative officials do not have an incentive to facilitate bureaucratic acts (Swecare, 2012). This criticism is generally in line with the opinion of Doff (2012) who states that current activities to reduce the extent of bureaucracy lack specific suggestions of how to solve related problems.

Summarized, both institutions doubt that political programs launched to reduce the extent of bureaucracy in the Russian Federation will have a noteworthy impact. Thus, the assumption that an impact of these programs facilitates the bureaucratic procedures of authorization processes for medical device products is not supported in this case.

4.1.1.4 Reforms within the Health Care System

Both institutions agree that the health care sector recently undergoes frequent changes which have positive impacts on companies operating in the medical technical sector (Swecare, 2012; Trade Council, 2012). According to Tompson (2007) the government currently passes further health care programs in order to deal with the prevailing health care crisis. Swecare (2012) states:

“The health care sector is a very turbulent sector with lots of changes. Larger cities like Moscow are prioritized in the reforming process.”

These limitations are in accordance with Gordeev et al. (2010) and Tompson (2007) who state that the Russian health care system still lacks an equal level of funding and quality in all areas. Apart from this criticism, both institutions state that the modernization of medical technical equipment is an important issues which is ongoing for several years already. This process was initiated through extensive health care reforms (Swecare, 2012; Trade Council, 2012), as it was also stated by Marquez et al. (2008) and Twigg (1999). In line with Espicom Business Intelligence (2012) and Germany Trade & Invest (2009) it is recognized that the Russian Federation is nowadays still highly dependent on imports of medical device products but the technological development of the country will catch up. Thus, foreign medical technical producers have today a favorable position but the situation will change in the future (Swecare, 2012; Trade Council, 2012).

In conclusion, both institutions agree that health care programs have a positive impact on companies operating in the medical technical sector. However, similar to the concerns related to the changing business environment (section 4.1.1.3), it is recognized that foreign medical technical companies only have a competitive advantage unless the technological development of the Russian Federation catches up. Thus, the assumption that the launch of different health care programs has positive impacts on the order volume of foreign medical technical companies is in this case supported for the near future.

4.1.2 Networks in the Russian Federation

The general role of networks (section 4.1.2.1) as well as the role of business and social networks (section 4.1.2.2) in the Russian market is analyzed in the following.
4. Analysis

4.1.2.1 General Role of Networks

In line with various other research regarding the importance of networks in the Russian market (Aidis et al., 2008; Batjargal, 2003; de Kets Vries & Florent-Treacy, 2003), both institutions provide evidence that a well established network is a crucial determinant for medical technical companies. Networks are necessary to be informed and to overcome the weak business conditions of the Russian market (Swecare, 2012; Trade Council, 2012).

As it can be observed in section 4.1.1.4, the discussed health care reforms have positive impacts on companies operating in the medical technical sector. Swecare (2012) states that a net of local contacts is necessary in order to evaluate and understand the actual impact of these reforms. This evaluation is in line with Aidis et al. (2008) who state that having the right contacts is a crucial determinant to develop a company in the Russian market further. However, both interviewed institutions admit that even for market insiders it is difficult to keep track of all reforms as information needed to get an complete overview is difficult to gain (Swecare, 2012). It was stated by Byham (2010) that it is increasingly difficult for organizations to accumulate all relevant knowledge for the management tier as progressing globalization processes lead to an increasing complexity of business environments. As a solution, Byham (2010) discusses business networks as an important tool to close these knowledge gaps within the management tier.

4.1.2.2 Business and Social Networks

In order to be informed about latest changes in the Russian Federation, Swecare (2012) recommends medical technical companies to establish a relationship to the “Public Health Committee” in Moscow which is well informed about ongoing processes in public health questions.

The relationship between a medical technical company and the “Public Health Committee” might not correspond with the underlying definition of a business network among entities controlling business activities, as it was presented by Porter (1990) in section 2.4.2.1. According to Byham (2010) the conditions of a business network are also fulfilled when the entities of the network possess of a broad array of experience and knowledge. The “Public Health Committee” has a lot of experience and knowledge about health care issues. This knowledge supports companies controlling business activities and is resulting in lower expenses for these companies. For this reason, a good relationship with the Public Health Committee is of considerable value and perceived as a relationship within the business network of companies. Especially companies operating in the medical sector which supply public health institutions are in need of contacts to the Public Health Committee (Swecare, 2012). Thus, it can be concluded that the engagement in this relationship is profit oriented. According to the differentiation of Huber and Wörgötter (1998) this kind of network can be considered as an entrepreneurial network which is easy to access for foreign companies. According to Swecare (2012) helpful support is provided during the authorization process of medical technical products which is characterized as an expensive and time consuming process (Germany Trade & Invest, 2009). Convincing the “Public Health Committee” to test medical technical products in one or two public hospitals can facilitate and accelerate the
licensing process of products. It is said that companies in possession of such contacts have competitive advantages as an accelerated market entry can be achieved (Swecare, 2012). In sum, encouragements in well-established business networks facilitate access to a market, as it was also stated by Podolny and Page (1998).

Moreover, social networks or Blat are also an important aspect within the Russian Federation (Swecare, 2012; Trade Council, 2012). This perception is shared by various authors such as Butler and Purchase (2004) as well as Michailova and Worm (2003). According to Swecare (2012) the investment in social networks pays off for companies operating in the medical sector as information can be obtained faster and in richer detail. However, two limitations need to be considered. Firstly, it is more difficult to evaluate and confirm information from personal contacts and secondly, it is difficult to distinguish between social and business contacts. Most of the personal relationships develop based on business relationships and it is hard to differentiate between both kinds. This perception is not in line with the research of Byham (2009). The author discovers clear differentiations between both kinds of networks. The acquaintance of people is referred to be a characteristic of social networks whereas job relevant help is not necessarily provided. In the case of medical technical companies in the Russian Federation, the transition between both kinds of networks is fluent.

In conclusion, both institutions agree that networks are an important source for crucial information about recent developments in the Russian market. The establishment of a close relationship to the “Public Health Committee” in Moscow is recommended for companies operating in the medical technical sector because not only crucial information can be obtained but also relevant help in the product authorization process is gained. Thus, the assumption that medical technical companies with a well-established network have a competitive advantage in the Russian market is supported. However, it was underlined that a distinction between business and social networks in the Russian market is difficult to achieve. The theory of Barnes et al. (1997) as well Michailova and Worm (2003) that social networks are extraordinary important in the Russian market was not supported to the same extent for companies operating in the medical technical sector.

4.2 Arjohuntleigh

In line with the previous subchapter, the following analysis is divided into two parts. In section 4.2.1, the impact of recent and upcoming-business impacting changes as well as recent health care reforms on companies operating in the medical technical sector are analyzed. Based on that, the role of networks for companies operating in the medical technical sector is investigated in section 4.2.2.

4.2.1 Recent and Upcoming Business-Impacting Changes

In the following, the impacts resulting from the WTO Membership (section 4.2.1.1), the increasing overall wealth of the Russian population (section 4.2.1.2) and the launch of different political programs (section 4.2.1.3) are analyzed for the case of Arjohuntleigh.
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4.2.1.1 Membership of the World Trade Organization

The medical device company Arjohuntleigh wants to improve its brand presence in the Russian market within the next 18 months. Moreover, the establishment of an own operation in the long run is intended. However, the upcoming membership of the WTO and its influences has not yet been analyzed by the company. They state that the membership of the WTO will not have an influence on their decision when and if own operations are launched. This attitude is explained by the fact that no business-impacting changes which are relevant for Arjohuntleigh result from the membership during the next years (Arjohuntleigh, 2012). This statement diminishes the theoretical findings of Jensen et al. (2007), Kuchins et al. (2008) as well as Radaev (2002). The authors foresee considerable changes, such as lower trade barriers and a more competitive environment resulting from this membership. Possible long term impacts as indicated by Blankenagel (2000) and Jensen et al. (2007) are also not considered by Arjohuntleigh (2012).

In conclusion, these findings are in line with those of the case-support interviews (section 4.1.1.1). Arjohuntleigh neglects the membership and its possible impacts as a result that no considerable changes are expected for their medical technical company. Thus, the assumption that impacts of the membership are likely to increase turnover and sales figures of foreign medical technical companies operating in the Russian market is again not supported in this case.

4.2.1.2 Increasing Overall Wealth

According to Arjohuntleigh (2012) the increasing overall wealth of the Russian population has an important impact on future business strategies of the company. Currently, Arjohuntleigh has cost disadvantages in comparison to its Russian competitors, especially when competing for large scale orders (Arjohuntleigh, 2012). Not only Arjohuntleigh but a whole host of medical technical producers face the similar problems as stated by Parfitt (2009). Arjohuntleigh (2012) says:

“We have to go to the high end where the volume is relatively small and so is the market share also on a smaller side.”

The increasing overall wealth promotes “an appetite” of buying non Russian products especially in the private sector that ensures high quality health care provision. Thus, Arjohuntleigh is especially focusing on private health care institutions were customers are more interested in being treated with western technology (Arjohuntleigh, 2012). A closed circuit can be observed here: the establishment of private sectors promotes the increasing overall wealth (Mroz & Popkin, 1995; Mu, 2006) while this wealth in turn favors further developments of the private health care sector. This cycle was already discovered in section 4.1.1.2.

Summarized, the assumption that the increasing overall wealth in the Russian Federation is likely to influence the order volume of companies operating in the medical technical sector positively is supported in this case. Thus, Arjohuntleigh, Swecare and the Trade Council share the same point of view.
4.2.1.3 Influences of Recently Launched Political Programs

In the following, the impacts of political programs regarding the business environment (section 4.2.1.3.1), the extent of corruption (section 4.2.1.3.2) and bureaucracy (section 4.2.1.3.3) on the medical technical company Arjohuntleigh are analyzed.

4.2.1.3.1 Influences on the Business Environment

Current and upcoming reforms to improve the overall business environment are recognized as a step towards a more sophisticated and transparent environment. However, nearly in the same manner as the WTO membership, political programs and their possible impacts are just barely taken into consideration concerning the question whether and when the local market presence is established (Arjohuntleigh, 2012). There are two reasons for this: the first reason is, as already stated by Swecare (2012) and the Trade Council (2012), the fact that there is no overall business environment within the Russian Federation. The business environment is fragmented and especially bigger cities like Moscow and St. Petersburg are much more developed than rural areas. Thus, Arjohuntleigh (2012) states that the extent of possible impacts is much lower than discussed in literature by Bjorkman (2003) or the OECD (2011). The second reason is that, especially in the short run, negative consequences are likely to exceed the positive ones. A more competitive business environment attracts new competitors and especially those from the far east. They have not only a cost advantage but they are also increasingly competitive in terms of quality (Arjohuntleigh, 2012). Only Germany Trade & Invest (2009) pointed towards this development. From this case it can be summarized: the Ministry of Education and Science of the Russian Federation (2009) wants to establish a competitive economy but benefits for foreign medical technical companies are ambiguous at the same time.

In conclusion, Arjohuntleigh expects only minor consequences resulting from political programs of the Russian Federation. Concerning these programs the opinions of Swecare and the Trade Council differ from Arjohuntleigh. The former mentioned institutions expect at least in the short run positive results for companies operating in the medical technical sector. Thus, the assumption that an enhanced overall business environment resulting from political programs will promote the market share of medical technical companies is not supported by Arjohuntleigh.

4.2.1.3.2 Influences on the Extent of Corruption

The reason why Arjohuntleigh is currently active in the Russian market through two distributors and not an own branch yet can be found in two reasons. Firstly, the usage of distributors who are familiar with the Russian market and its business conditions reduces the risk of uncertainty. The second reason is the avoidance of a direct involvement in corruptive activities (Arjohuntleigh, 2012). It is shown that the characterization of the Russian business environment as corrupt and malfunctioning (Aidis & Adachi, 2007; Anttonen et al., 2005) is still reality in business practice. According to Arjohuntleigh (2012) it is not expected that the political programs launched by the former President Dmitry Medvedev (Babich, 2008) will have any noticeable impact on prevailing corrupt business practices. However, it needs to be taken into consideration that:
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“There is a highly different definition in the East of what corruption is about.” (Arjohuntleigh, 2012)

Some kind of payments or voluntary fees to speed up bureaucratic procedures, as they were mentioned by Jain (2001), Radaev (2002) and Yakovlev (2001), are covered by the legal framework of the Russian Federation but do not match with prevailing business principles of Arjohuntleigh (2012). The company assumes that these kinds of payments are most certainly prevalent in relation to the authorization process of medical technical products (Arjohuntleigh, 2012). A reason for this is the fact that the whole process is expensive and time consuming (Arjohuntleigh, 2012), as it was also stated by Germany Trade & Invest (2009). However, at the moment Arjohuntleigh does not take care of these themselves but their distributors do. The establishment of an own operation would include to follow official procedures during the authorization process of their products, although this would take them “years and years and years” until they get operational completely. It is stated again that the launch of political programs which target to fight corruption in the Russian Federation do not influence the decision when and whether an own operation is established (Arjohuntleigh, 2012).

Summarized, in line with Swecare and the Trade Council, also Arjohuntleigh does not expect that the launch of political programs which target to decrease the extent of corruption do have any considerable success. An actual reduction of corruptive business activities in the Russian market is not expected. Instead the company is calculating how many years it would take to launch an own business operation without the help of a third party who is familiar with the corruptive environment. Thus, the assumption that political programs launched to fight corruption may facilitate the way of doing business for medical technical companies operating according to western principles and lead to an increasing market share is not supported in this case.

4.2.1.3.3 Influences on the Extent of Bureaucracy

According to Arjohuntleigh (2012) the choice to be currently active in the Russian market through a distributor was also determined by the extent of bureaucracy which is needed to be operational in that market. Here it can be seen that the environment which is created through intransparent bureaucratic rules and regulations influences the way of doing business in the Russian Federation, as it was stated by the Russia-InfoCenter (2007). In relation to the registration process of medical technical products, it is said (Arjohuntleigh, 2012):

“There needs authorization and it becomes a business on its own rights. I guess it is a quite profitable business for local organizations to do it.”

This statement shows that Arjohuntleigh agrees with Aidis and Adachi (2007), Devan et al. (2011) as well as Makeyenko et al. (1999) who recognized irrational degrees of bureaucracy in the Russian Federation. It is stated that the establishment of an own branch includes that the company prospectively has to undergo bureaucratic acts on itself such as the authorization of their products. However, political programs to decrease the extent of bureaucracy are again not taken into consideration in the decision to establish an own operation. It is stated that corruption and bureaucracy are interrelated in the Russian business environment. As long as the extent of corruption prevalent in the Russian Federation remains the same, bureaucratic
procedures do not change (Arjohuntleigh, 2012). With this statement, the company doubts that Vladimir Putin's diplomatic efforts to reduce the extent of bureaucracy (Druzhinin, 2010) will have any noticeable impact on medical technical companies.

In conclusion, Arjohuntleigh does not pay attention to political programs launched to decrease the extent of bureaucracy and their possible effects. In line with Swecare and the Trade Council, they are not convinced that the extent of bureaucracy is likely to change. The assumption that different political programs facilitate bureaucratic procedures related to the authorization process of medical device products is again not supported in this case.

### 4.2.1.4 Reforms within the Health Care System

Arjohuntleigh (2012) states that one problem of operations with an intermediate is that the company is not as close to the actual market. This means Arjohuntleigh knows about certain changes in the health care system but not about specific details. In accordance with Paramonov (1996) the Russian Federation is considered to be a promising market especially for companies operating in the medical technical sector. This opinion is determined by a manifold of factors and not because of specific health care reforms. Thus, no further analysis is conducted on this specific topic.

### 4.2.2 Networks in the Russian Federation

The perception of risk regarding corruptive activities and uncertain legal support as well as the lack of local contacts who provide relevant information for companies operating in the medical technical sector have caused Arjohuntleigh’s reluctance to establish an own branch in the Russian market (Arjohuntleigh, 2012). The importance of networks in general (section 4.2.2.1) as well as business and social networks (4.2.2.2) to receive crucial information is analyzed in the following for the case of Arjohuntleigh.

#### 4.2.2.1 General Role of Networks

Consistent with the findings of several authors who confirm that well established networks in the Russian market help to overcome the previously mentioned barriers (Aidis et al., 2008; Batjargal, 2003; de Kets Vries & Florent-Treacy, 2003), Arjohuntleigh (2012) states:

“Russia is one of those countries where you definitely have to have local contacts to get market relevant help and up to date information.”

Nevertheless, Arjohuntleigh (2012) also mentions the difficulties for a company to get access to local contacts in crucial positions as a non local company. Up to now, the usage of an intermediate is the best solution for them to get access to a well established network of contacts. The mentioned role of networks (cf. statement above) was also identified in literature and several authors investigate that business and social networks are both valuable means which support information exchange and survival within the Russian market (Håkansson & Snehota, 1989; Martinez & Aldrich, 2011; Michailova & Worm, 2003).
4.2.2.2 Business and Social Networks

Arjohuntleigh (2012) states that distributors are a valuable source of information about the competitive situation in the Russian market as a result that they dispose of information regarding product innovations, adaptations and changes of competitive products. This statement supports the authors Aidis et al. (2008) who observed that companies which have contacts to already existing business organizations in the Russian market have an advantage when they want to increase their presence in that market. Nevertheless, also the disadvantages of relying on the network of another business organization (in this case their distributor) are described (Arjohuntleigh, 2012):

“You are not as close to the market as you would like to be and the information you are fed with are very filtered information.”

If the literature discussion is kept in mind, the relationship between Arjohuntleigh and their distributors is characterized by two actors which control business activities and have a profit orientation. Thus, according to the definitions of Huber and Wörgötter (1998) as well as Porter (1990) the distributors and their net of contacts are considered to be a part of Arjohuntleigh’s business or more precisely entrepreneurial network. However, Arjohuntleigh (2012) perceives it to be difficult to distinguish between business and personal contacts for the case of the Russian market.

“Business and personal contacts are almost one and the same as a result that personal contacts are often those who are business contacts anyway.”

The choice for the distributors was initially determined by the value and size of their network. Thus, the relationship with both distributors started on the basis of business interests but those relationships are ongoing for many years and “[…] as the years went on, we build closer and closer relationships and mutual trust developed.” (Arjohuntleigh, 2012). On the one hand, the finding of Radaev (2005) that trust in the Russian business environment develops through a permanent repeated interaction processes between two actors was also observed in this case. On the other hand, the strict distinction between business and social networks of Byham (2009) cannot be applied in this case.

Summarized, also Arjohuntleigh states that access to networks is a crucial requirement to successfully do business within the Russian market. However, the difficulty for a medical technical company to get access to crucial contacts was mentioned. That is why Arjohuntleigh currently relies on two distributors and their well-established net of contacts. Nevertheless, also in this case is the assumption that market relevant information is obtained through well-established networks supported. In line with Swecare and the Trade Council, it can be observed that an extraordinary role of social networks for medical technical companies is difficult to support since the transition between business and social networks are fluent.

4.3 Getinge

In line with the previous subchapter, the following analysis is divided into two parts. In section 4.3.1, the impact of recent and upcoming-business impacting changes as well as
recent health care reforms on companies operating in the medical technical sector are analyzed. Based on that, the role of networks for companies operating in the medical technical sector is investigated in section 4.3.2.

4.3.1 Recent and Upcoming Business-Impacting Changes

In the following, the impacts resulting from the WTO Membership (section 4.3.1.1), the increasing overall wealth of the Russian population (section 4.3.1.2) and the launch of different political programs (section 4.3.1.3) is analyzed for the case of Getinge.

4.3.1.1 Membership of the World Trade Organization

Similar to Arjohuntleigh, Getinge (2012) wants to establish an own operation in the Russian market in the long run. Also similar is that the membership of the WTO is not and important determinant regarding the actual time for the an own establishment for both medical technical companies.

According to Getinge (2012) the WTO membership will be the “biggest” upcoming change but their attitude towards the actual impacts is twofold. On the one hand, trade barriers concerning obscure taxation laws and complicated customs clearing processes are expected to decrease to a minor extent. This was also stated by Aidis and Adachi (2007) as well Ernst & Young (2011). On the other hand, it is said (Getinge, 2012):

“Other than that not much will change, I believe. They are the same people who take decisions. The system will adjust but not change.”

This statement opposes the theoretical findings that the WTO membership will lead to considerable changes of the Russian economy (Jensen et al., 2007; Kuchins et al., 2008; Radaev, 2002).

Summarized, all four interviewed institutions do not support the assumption that the membership of the WTO is likely to noticeably increase the turnovers and sales figures of companies operating in the medical technical sector. It is stated that minor changes will occur but the expected extent differs considerably from the ones predicted in the literature.

4.3.1.2 Increasing Overall Wealth

According to Getinge (2012) the increasing overall wealth is already noticeable and has an impact on themselves and other companies operating in the medical sector. This impact results in a chain reaction: the economic situation of the Russian population improves and the desire for more children increases at the same time. Although, minor changes have already been successfully achieved, issues such as a high infant mortality rate are still to overcome. One approach to solve those poor health care outcomes was the launch of the “Health Care Development Concept 2020” with its overall aim to reduce the infant mortality (Parfitt, 2009). Getinge (2012) states that public maternity clinics are currently updated with adequate medical technical equipment, which Getinge delivers. In this case it can be seen that the overall wealth increase resulting from the establishment of private sectors - among other factors - (Mroz & Popkin, 1995; Mu, 2006) also promotes the public health care sector.
Moreover, the increasing overall wealth indirectly influences the launch of health care reforms such as those related to maternity issues.

In conclusion, all four interviewed organizations support the assumption that the increasing overall wealth of the Russian population leads to an increase of the order volume of companies operating in the medical technical sector.

4.3.1.3 Influences of Recently Launched Political Programs

The impacts of political programs which are concerned with the business environment (section 4.3.1.3.1), the extent of corruption (4.3.1.3.2) and bureaucracy (4.3.1.3.3) on the medical technical company Getinge are analyzed in the following.

4.3.1.3.1 Influences on the Business Environment

In contrast to Arjohuntleigh, Getinge (2012) states that political programs launched to enhance the Russian business environment should not be ignored. They are an important factor with significant influence on the business development of medical technical companies. Getinge is currently participating in and profiting from several political programs which intend to reform the business environment. In scope of “The strategy of development of science and innovation in the Russian Federation for the Period up to 2015” several projects to modernize the economy in terms of technology were launched (OECD, 2011). Getinge (2012) participates in one of the launched projects and delivers up-to-date equipment to smaller clinics around Moscow. Another program they are taking part in includes the establishment of a so called “Russian Silicon Valley’s” next to Moscow with the aim to create favorable conditions for the development of innovations. Additional programs were also launched to further develop a competitive economy with advanced research structures, as it was described by Bjorkman (2003) and the OECD (2011).

Summarized, in contrast to Arjohuntleigh, Getinge takes advantage of political programs which promote the business environment of the Russian Federation. Especially programs and projects which target on the technological modernization of the country increase the demand of qualitative medical technical products, which Getinge delivers. Differently to Swecare and the Trade Council, there is currently no concern that these advantages will diminish in the near future (Getinge, 2012). The assumption that an enhanced overall business environment resulting from political programs will promote the market share of medical technical companies is supported in this case.

4.3.1.3.2 Influences on the Extent of Corruption

Both interviewed medical technical companies are currently active in the Russian market through distributors. These market entry strategies were chosen as a result that corruption, as it was also stated by Aidis and Adachi (2007) as well as Anttonen et al. (2005), is omnipresent in the Russian market⁶. A direct involvement in corruptive activities is beyond question for Getinge (2012). This statement is in line with the findings of the OECD (2011) who states that

⁶ As it was already stated (section 3.4.1), the members of the Getinge Group are operating decentralized. Thus, all decisions concerning the running business are taken independently.
companies which operate according to western-oriented business principles face major obstacles and business barriers such as corruption in the Russian market.

According to Getinge (2012) especially processes of getting necessary licenses for medical technical products are vulnerable to corruptive acts. This statement confirms the assumption of Arjohuntleigh which presumes highly corruptive potential in this area. Moreover, Getinge (2012) states that these procedures are used by authorities to exploit foreign companies. The time needed for the authorization depends highly on how much money companies are willing to pay in order to speed bureaucratic processes. As it was already stated, payments which are used to speed up bureaucratic processes are covered by the legal framework of the Russian Federation (Radaev, 2002). Another reason why corruption cannot be neglected, especially by foreign firms, is that the Russian government still promotes and protects considerably local production and some incentives to consider also foreign companies are needed (Getinge, 2012).

Similar to Arjohuntleigh, Getinge (2012) pays little attention to the programs launched in order to decrease the extent of corruption within the Russian Federation. Resulting from the previously introduced arguments, it is not accepted that the extent of corruption will decrease in the near future. Thus, the assumption that different political programs negatively influence the extent of corruption and facilitate the way of doing business in the Russian Federation is not supported by all four interviewed organizations. Thus, an increasing market share resulting from less corruptive activities is not expected.

4.3.1.3.3 Influences on the Extent of Bureaucracy

Similar to Arjohuntleigh, Getinge (2012) also states that the decision to supply the Russian market through an intermediate is the best option to deal with the extent of bureaucracy. Also in this case the assumption of the Russia-InfoCenter (2007) holds true that the level of bureaucracy indeed influences important market decisions of companies. It is stated that it can take several years to get important and relevant certificates. After a certain time period certificates expire and need to be renewed. Getinge (2012) currently employs staff who are exclusively in charge to update and complete certificates needed for authorization processes of their products. As it was stated by several authors (Manfred et al., 2004; McCarthy, 1995), it can be observed that companies have to spend extra resources in terms of time and money in order to handle the extent of bureaucracy in the Russian Federation. It is not expected that this extent is likely to diminish in the near future. In line with Arjohuntleigh, it is stated that corruption and bureaucracy are interlinked. In the first instance, the extent of corruption has to change in order to create incentives to facilitate bureaucratic procedures (Getinge, 2012).

Summarized, all four interviewed institutions do not expect considerable changes in relation to the extent of bureaucracy prevalent in the Russian Federation. The assumption that political programs launched to decrease the extent of bureaucracy will have negative influences on the extent of bureaucracy needed in order to register medical technical products is not supported.
4. Analysis

4.3.1.4 Reforms within the Health Care System

In line with Besstremyannaya (2009) and Global Impact Solutions (2012), also Getinge (2012) states that different health care reforms and programs have considerable impact on medical technical companies. Getinge itself is currently participating in three different federal health care projects which were launched within the scope of the discussed health care reforms (section 2.2.2). All programs Getinge (2012) participates in aim to modernize medical technical centers, maternity clinics and polyclinics within the Russian Federation. Through these programs, Getinge (2012) has the possibility to deliver medical equipment as well as to increase its market presence and awareness. However, it is also stated that these impacts are limited because they have to compete against Russian producers who are politically supported by the government.

Contrary to Arjohuntleigh, Getinge (2012) takes advantage of several health care reforms and projects which are launched to contribute to these programs. The company is actively participating in federal health care projects and uses the possibility to increase its order volume and market share. Thus, the assumption, that the launch of health care reforms has an positive impact on the demand of medical technical products is supported in this case.

4.3.2 Networks in the Russian Federation

Getinge (2012) states that trust is a key factor in business operations in the Russian market. The relationship with their current distributor is already going on for ten years during which mutual trust was developed and a satisfactory relationship established. As Radaev (2005) discusses it can be observed that a low level of trust in the Russian business environment can be outbalanced through repeated interaction and a successful cooperation with distributors. According to Getinge (2012) the choice of a distributor is determined among other things by the value of his network:

“[…] it is the political connection which is the most important criteria when a distributor is chosen.”

Advantages for Getinge (2012) to use an already established network of a Russian business organization are manifold: the avoidance of direct involvement in corruption, an experienced approach to deal with the complex authorization process of their products and the up-to date information about ongoing changes which are relevant for the company. As it was already discussed by Frye and Shleifer (1997) the high level of corruptive activities in the Russian market increases the importance of well-established network as it is also stated by this medical technical company. Their distributor provides Getinge with information about upcoming and recently launched health care programs which are potentially interesting for them (Getinge, 2012). Similarities between this case and the general findings that relations to already existing business institution in the Russian market are advantageous (Aidis et al., 2008) are found.

9 A subdivision, as it can be found in the previous sections, was not possible in this section because the information related to different kinds of networks are overlapping.
However, Getinge (2012) states that dependence on an intermediate’s network also has disadvantages in terms of human resource capacities and personal restrictions. There were many health care programs launched recently in order to enhance the general situation of the health care sector in the Russian Federation. Even if Getinge would like to participate in the most suitable ones, this intention is limited by the capacities of their distributor. He is not always able to satisfy Getinge’s wishes due to his own restricted human resources. Moreover, the distributor wants to protect his political contacts and that is why those contacts constrain his behavior. Thus, the information flow between Getinge and the distributor is influenced by his political contacts (Getinge, 2012):

“Trust and respect play always a big role in both ways but you do not have to believe everything you are feed with.”

These findings are in line with the observations of Gargiulo and Benassi (1999) as well as Uzzi (1997) who state that personal contacts increase social obligations and constrain the economic freedom of an actor. However, the relationship between Getinge itself and their distributor fits the definition of a business network according to Porter (1990). Both parties control business activities through which they are linked. As it was stated by Arjohnleigh, Getinge (2012) agrees that business contacts often become social contacts and this way long-term relationships are achieved. However, Getinge (2012) states that they are nearly exclusively operating within the scope of business networks.

A relationship with the Public Health Committee of a country is perceived to be essential in every market and no extraordinary role is ascribed to the relationship between Getinge and the Swedish Trade Committee in Moscow (Getinge, 2012). This finding contradicts the statement of Swecare who perceives a far more promising role of the relationship.

In conclusion, all four interviewed institutions support the assumption that networks are generally important for the Russian market and provide medical technical companies with important information. However, all four organizations agree that the transition between business and social contacts or networks are fluent in the Russian market. This fact is explained by achievements of long-term relationships which are required to build a sustainable and trustful relationship.

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10 However, it is difficult to distinguish in this case if the political contacts of the distributor stem from personal relationships or should be considered more as a category of business contacts since no interview with the distributor itself was conducted.
5. Conclusion

The impacts of recent and upcoming business-impacting changes in the Russian Federation on companies operating in the medical technical sector are investigated in this thesis. Moreover, the importance of networks in the Russian market as a mediator between business-impacting changes and medical technical companies is examined theoretically and empirically. In this chapter, the gained insights are summarized (section 5.1), implications for further research and practice are derived (section 5.2) and limitations of this thesis are outlined (section 5.3).

Based on a revision of research dealing with recent reforms and changes affecting the business environment of the Russian Federation (Ahrend & Tompson, 2005; Besstremyannaya, 2009; Marquez et al., 2008), a research gap has been identified. There is insufficient knowledge about the impact of these changes especially on companies operating in the medical technical sector. In order to close this research gap, a framework which summarizes the most important reforms and business-impacting changes was developed. Based on this framework, the first research question “How do recent and upcoming business-impacting changes within the Russian market affect companies operating in the medical sector?” was investigated empirically. Moreover, it was examined which role networks assume as a mediator between business-impacting changes and companies operating in the medical technical sector. Therefore, the second research question “How can networks support firms in the medical technical sector to confidently deal with recent and upcoming business-impacting changes within the Russian market?” was firstly discussed theoretically for all industries operating in the Russian market and secondly, empirically for companies operating in the medical technical sector in particular.

Different topics relevant to understand the background of the research questions are presented and narrowed down to an underlying framework for the empirical analysis. In the first instance, various tariff and nontariff barriers which are currently influencing the way of doing business in the Russian market are presented in order to illustrate the necessity of business-impacting changes. The membership of the WTO, different political programs dealing with corruption and bureaucracy as well as the increasing wealth of the Russian population are identified as major ongoing changes affecting the way of doing business in the Russian Federation. Moreover, the poor health care status of the Russian population determines reforming processes in the health care sector. These reforms are likely to have positive impacts on companies operating in the medical technical sector since the provision of adequate medical equipment is an important approach to increase the health care status. As an approach to be informed about recent and upcoming changes in the Russian Federation, the role of networks as a mediator between crucial information and companies operating in the medical technical sector was discussed. The derived framework is based on theoretical identified findings which can be mostly applied to diverse industries. Therefore, the objective of this thesis is to investigate the specific impact of identified changes for companies operating in the medical technical sector.

The empirical analysis is based on a qualitative research design in the form of a multiple case study. Case companies are the medical device producers Getinge and Arjohuntleigh which both belong to the Swedish-based Getinge AB. The findings of these cases are supported by
two interviews which were conducted with Swecare and the Swedish Trade Council in Moscow. In the following, the results of the case studies are summarized and their generalizability is discussed.

5.1 Findings

Contrary to the findings in literature discussion, the WTO membership is perceived as to have limited impacts on the turnover and sales figures of companies operating in the medical technical sector. Reasons for this reserved attitude are the still prevailing prioritization of domestic companies by the Russian government as well as strict power structures that are unlikely to change. The contrary is observed for the impact of the increasing overall wealth of the Russian population. All interviewed organizations agree that the increasing overall wealth promotes the demand of private health care provision which is characterized to be expensive but of high quality. The products of Russian medical device producers do not fulfill the requirements and high standards of the private health care institutions and thus, the order volume of foreign medical technical producers is likely to increase.

Various political programs which are launched to enhance the Russian business environment and to decrease the extent of corruption as well as bureaucracy are evaluated to have mixed impacts on medical device producers. The increasing competitive situation and the technological development of the medical device market are perceived results of political programs which are launched to enhance the business environment. Two of the interviewed institutions admit that the competitive advantage of foreign medical device producers is likely to decrease as soon as the technological development of the Russian Federation achieves international standards. One case company is concerned about even negative consequences because more favorable conditions of the business environment attract additional competitors from all over the world. However, none of the interviewed institutions expect that the discussed political programs achieve a noticeable reduction in the extent of corruption and bureaucracy. Thus, the assumption that various political programs promote the market share of medical technical companies and facilitate bureaucratic procedures related to the authorization of medical device products is supported to a limited extent only.

The contrary is stated for the launch of different health care programs which aim to improve the overall health care status of the Russian population. These programs again increase the demand for adequate medical technical products and enable companies to increase their market presence. Restrictively, it is admitted again that the competitive advantage of foreign medical device producers will decrease as soon as the technological development of the Russian Federation advances further.

In relation to the first research question, it is concluded that recent and upcoming business-impacting changes within the Russian market affect medical technical companies in a variety of ways. It is observed that changes identified in literature and their discussed impacts are often not consistent with experiences and expectations of medical technical companies which are actually operating in that market. Compared to findings in literature, not the WTO membership but the increasing overall wealth of the Russian population is perceived to have considerable influences on the order volume of foreign medical technical companies. The
same holds true for recent and upcoming healthcare reforms which entail – among other measures - a major (re)equipment of health care institutions. However, it was stated that the Russian economy has not yet reached the conditions for a workable free market economy (Baumol, 2002). Thus, some obstacles of the way of doing business in the Russian Federation decrease while others remain stable. These findings are supported by all four interviewed institutions and a high generalizability is assumed. All institutions retrospect years of active participation in the Russian market and share expectations related to the future development of the economy to a great extent. Most of the conclusions do not affect medical technical companies exclusively but also companies of various industries experience e.g. a prioritizing attitude of the Russian government as well positive impacts resulting from the increasing overall wealth of the Russian population.

The second research question is concerned with the role of networks as a mediator between recent and upcoming business-impacting changes and companies in the medical technical sector. All four interviewed institutions agree that well-established networks are a crucial determinant to overcome tariff and nontariff trade barriers and to receive crucial information about recent and upcoming business-impacting changes. It is stated that local contacts are a valuable source to appropriately evaluate changes and their actual outcomes. Moreover, the establishment of long-lasting relationships outbalances low trust levels which are prevailing in the Russian business environment. Both interviewed medical technical companies currently take advantages of business networks of their distributors, which are already established. This solution is chosen – among other reasons - because of the difficulty for foreign companies to establish contacts to local persons in crucial positions. Moreover, the establishment of sustainable relationships is characterized to be time consuming.

In literature, it is distinguished between business and social networks. The later ones are ascribed with a special role for the Russian market because companies prevailing rely on the support of personal contacts rather than on the help of official institutions. The findings of the case interviews do not allow a separation in business and social networks for the Russian market because the transitions are perceived to be fluent. Most relationships are initially established with the background of business exchange and support. However, frequently repeating exchange processes often last for several years and a relationship on a personal level develops. The role of networks in the Russian market is also confirmed for companies operating in the medical technical sector. Moreover, certain advantages and disadvantages of business and social networks identified in literature are confirmed by the interviewed institutions. However, the separation in business and social networks can, according to the interviewed institutions, not be undertaken for the case of medical technical companies operating in the Russian market. In conclusion, the assumption that medical technical companies which have access to a well-established network have competitive advantages in the Russian market is supported. The generalizability of the previously mentioned findings has to be supported by further research processes (section 5.3).
5.2 Managerial Implications

Several implications for marketing theory and practice can be derived from the previously introduced findings. The establishment of a valuable net of contacts facilitates not only the way of doing business in the Russian Federation but has also positive implications for the career of managers (section 2.4.2.1). Crucial information about business-impacting changes can be obtained and a misleading interpretation of ongoing changes can be avoided. It has to be taken into consideration that the business practice often differs from the theoretical discussed reality as it was seen for the case of the WTO membership.

It is recommended that medical device producers put emphasis on the development of health care reforms and related projects. These reforms enable medical technical companies to get access to the market and to increase their overall market presence. Thus, the awareness of a company can be increased and first experiences with the Russian business environment can be obtained. Moreover, especially the private health care sector of the Russian Federation requires a particular observation. The market share of private health care institutions is increasing and therewith also the demand for qualitative Western medical device products.

Different political programs and their outcomes are frequently discussed in literature but their actual impact is only noticeable to a limited extent. In order to evaluate these changes appropriately it is worth to invest resources in the establishment of relationships. However, prevailing theories related to business and social networks have to be revised by marketing theory and practice. The findings of the conducted multiple case study indicate that a separation of business and social networks, as it can be found in literature, is not applicable on medical technical companies in the Russian Federation.

5.3 Limitations and Future Research

This thesis is subject to some limitations which should be taken into consideration for future research. A higher number of case companies increases the ability to generalize the previously summarized findings. Especially criticism related to the network theory requires further reflections and investigations. These should follow the overall aim to determine whether the distinction of business and social networks is not given for the case of medical technical companies in the Russian market only or for companies from various industries as well as in other markets, too.
List of References


Arjohuntleigh (2012). Interview with the company conducted by the authors of this thesis.


Getinge (2012). Interview with the company conducted by the authors of this thesis.


Swecare (2012). Interview with the institution conducted by the authors of this thesis.


Trade Council (2012). Interview with the institution conducted by the authors of this thesis.


Appendix

Interview Guide

1. Please introduce yourself

- Current position?
- Area of responsibility?
- What is your department in charge of?

2. Health Care System

- Which are the most important institutions in the Russian health care system?
  - In relation to health care provision for the Russian population?
  - In relation to the administrative structure? (Official institutions like the Ministry of Health Care)
- What are the differences between private and public health care provision?
  - General Information
  - Are there any changes regarding private and public health care provision?
- Are there any ongoing reforms relevant for the health care system of the Russian Federation
  - How do you evaluate their impacts?
  - Are there further reforms planned?
  - What role do they have for companies operating in the medical technical sector?

3. Recent and Upcoming Business-Impacting Changes

- How do you characterize the Russian business environment?
  - What are the general differences between Western markets and the Russian market?
    - In General?
    - In particular for companies operating in the medical technical sector?
    - How do you evaluate current impact of trade barriers?
      - Bureaucracy
        - How to deal with it?
        - How is it influencing the business life currently?
        - Expected changes?
      - Corruption
        - How to deal with it?
        - How is it influencing the business life currently?
        - Expected changes?
      - Business environment
        - How to deal with it?
        - How is it influencing the business life currently?
        - Expected changes?
• What is expected to change in the Russian Federation in relation to business activities?
  o How do you evaluate …:  
    ▪ The WTO membership and its influences?
      • Concerning trade barriers?
      • Concerning opportunities for companies operating in the medical technical sector?
    ▪ The increasing over all wealth?
    ▪ Do you know any political programs which are currently under discussion or has been deployed recently?
      • Effecting the Russian economy in general? (e.g. against corruption)
      • Effecting the health care system in particular?
  o What is the most crucial change and how do you think will it effect companies operating in the medical technical sector?
  o What do you think will Russia look like in the longer run (5-20 Years)

4. Networking

• How would you evaluate the importance of networks for the Russian market?
  o In general?
  o With regard on the Getinge Group?
• Which institutions are important to have a contact person in (with regard on the Getinge Group)
  o Why?
  o How to establish contacts?
• More important to have a social network (net of close contacts you know well and you trust) or to have a business network (not necessarily known people but with enough know-how and who provide you regularly with important information)?