

# Strategic Foresight in an Unstable Economic Environment

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## ABSTRACT

Russia is one important business partner for Germany and vice versa. Hence many industries depend on a harmonic political relationship between the countries. The current political tension caused sanctions and counter-sanctions. A one-year ban on imported agricultural products from EU countries to Russia causes a negative impact on trade relations between Germany and Russia, insofar that companies are forced to find alternative strategies for their business. With the help of a PESTEL analysis of the current situation of Russia and a semi-structured interview with 10 representatives of the agricultural industry, it could be identified that there is never a “best” market entry strategy. Furthermore, the results show that primarily not external factors affect the choice of international market entry strategies, but rather the strategic goal of the company. The external factors, however, are able to direct the decision-making process and point out what market entry strategy is applicable or not. Overall, the results of this study may contribute by pointing out the political circumstances and the benefits and disadvantageous of each strategy when applying in the current situation.

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## Keywords

Market Entry Strategy, PESTEL Analysis, EU Sanctions, Russia - Germany Trade Relations

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# 1. INTRODUCTION

Since Putin came the first time to power in 2000, Russia has undergone certain state and economic transformations. The then declining economy started to increase and with it, employment, wages and living standards. Especially trade, investment and financial transactions with the West improved (Petras, 2014). Russia's GDP grew in average 8 % per year (2000-2013), total exports have increased from \$103 billion to \$526 billion, non-oil & gas products grew by 250% (AWARA Group 2014).

Russia became a more and more important trading partner for the EU. "reaching record levels in 2012" (European Commission, 2015). In the same year, Russia became a member of the WTO, which enhances market access for EU firms. According to the European Commission (2015) the EU is the most important investor in Russia while Russia for the EU ranks on place three. Up to 75% of Foreign Direct Investment (FDI) is estimated to come from the EU (including Cyprus). German corporations belong to the most important investors, even though Cyprus' FDI's are five times higher (Cyprus counts as an Offshore-Paradise for Russian corporations, from where the Russian corporations invest the money back to Russia) (Germany Trade & Invest, 2015).

In the end of 2013 German cumulative FDI's were higher than the FDI's from USA, Japan, China, France, Italy and the UK together (Germany Trade & Invest, 2015). Furthermore the number of German corporations in Russia had increased in 2013 to 6200, and still more than 6000 firms are there (German Mittelstand, 2015) This is the highest amount among all foreign investors in the world. The German firms pointed out that a higher consumption, higher sales and profit chances, and the comparable low tax rates are huge advantageous (German Mittelstand, 2015).

However, since the annexation of Crimea in 2014, the relationship between Europe, and therefore Germany and Russia has changed (Germany Trade & Invest, 2015). Europe has enacted four sanctions in order to accelerate the end of the Ukraine conflict. The sanctions only affect cases which are related to the Crimea (German Mittelstand, 2015). As a countermeasure, Russia has also ordered sanctions in order to stand up against the West. Agricultural imports, where prohibited. No fruit, vegetables, meat, fish or dairy products is allowed to be imported from the EU and the US for one year (Kryazhev, 2014). Russia is Europe's second biggest market for food and drink. Export of food had boomed several years, alone in 2013 exports of food and raw material to Russia made up to € 12.2bn (Walker & Rankin, 2014).

Now, Russia has turned more to Brazil and New Zealand. Those who used to export milk or meat to Russia, have to find new ways to make use of the Russian market (Walker & Rankin, 2014). On the one hand, despite the sanctions, there is high potential for business due to the huge population (140 million), the programs to enhance Russian economy, and the special economic zones. On the other hand, there are various risks to face when entering the Russian market, such as the increasing tradebarriers (e.g. duration of custom clearing, higher tariffs for imports) and the underdeveloped infrastructure, but also political issues such as the current situation in Russia. Among others, these factors might influence which kind of entry strategy companies chose in order to enter the Russian market. In unpredictable times, a company might be more cautious about denoting resources and giving away control. If a company choses to mitigate risk by investing little resources, exporting would be a suitable option.

However, when choosing exporting, the company gives away direct control over the marketing and distribution of the product. Currently, with the sanctions and the ban of imported agricultural products, exporting is limited. In this case, the

company is forced to engage in another entry strategy which would result in a higher investment of resources but would also give the company more control and higher profits. If it chooses to engage in a joint venture with Russian partners or build a wholly owned subsidiary in the country, the company would still be able to do business, despite the sanctions and the bans.

In such political insecure times, the success of a business is even more dependent on the right choices. In order to make the right entry decision, it is necessary to gather as much information as possible about the environmental uncertainty the organization is surrounded by (Vecchiato & Roveda, 2010). According to Vecchiato and Roveda (2010), it is then necessary to extend the analysis of the environment to a broader scope and include the meso and macro level that gives a long-term oriented foresight. In this context, the meso level concerns "a specific business area or [...] industry segment", such as the agricultural industry (p. 1531). To identify the drivers of change, the analysis has to go beyond the micro-level and concentrates more on "macro drivers of change" that occur globally but also "strongly affects the industry" (p. 1530).

Therefore, the theories exercised in this paper, are the PESTEL analysis and the international market entry strategies, which respectively concern the macro-level and the meso-level of the company. The PESTEL analysis gives us a general idea of the environment the company exists in and points out, what factors should be considered when creating a business strategy. The PESTEL framework is a popular tool to analyse the foreign market and its macro environment (Johnson, Scholes & Whittington, 2011). It examines "political, social, technological, environmental ('green') and legal issues" the organization might face (p. 49). On the one hand, it helps to point out key drivers for change which are based on historical data and past events. With the help of the key drivers future scenarios are created which enable the organization to prepare for upcoming events or threats. On the other hand, the framework is designed as an analytical tool that identifies the factors that influence the current business strategy and how different external factors might affect the current or future performance (Rahman, Saharuddin & Rasdi, 2014).

Once the external factors are identified, the firm needs to evaluate the internal capabilities in terms of the degree of control, and foreign market presence it wishes to have, and amount of resources the firm is willing to invest in order to enter the foreign market (Keagan, 2001). Depending on the decision, the company can choose the appropriate international market entry strategy. There are four different market entry strategies, namely exporting, licensing/franchising, joint venture and wholly subsidiary which vary in the degree of control and resource commitment for a successful execution and in the drawbacks and benefits they bring (Hollensen, 2014; Kerim & Peterson, 2013; Johnson et al., 2011).

Despite all the negative news, the economic decline and sanctions, the Russian market is still one of the most interesting markets for the German economy (Auslandshandelskammer, 2015). Therefore, this paper illuminates by analyzing the current Russian economy which factors should be considered by German companies that consider to enter the Russian market. Theoretically, literature identified four main entry strategies for entering international market. It is of interest to examine the literature and see how the strategies are applied in practice, especially in times where the economic situation is very uncertain. As a frame for this research, a special focus will be put on the ban of imported agricultural products by the Russian Federation which makes it impossible for existing business relationships to continue to export their products from

Germany. Those who are affected have to find another way out. Therefore, this paper tries to answer the following research question:

*What is the most suitable market entry strategy for companies in the German agriculture industry to enter the Russian market given the present situation?*

This paper's sample includes ten interviews with representatives of the agricultural industry. In the semi-structured interviews, both the pre crisis and post sanctions relationship to Russia, the aspects of the PESTEL analysis and the market entry strategies were discussed. Furthermore, secondary data was used to underline the qualitative findings of the interview. The secondary data was gathered via government websites, newspapers and institutional reports.

The result of the semi-structured interviews and the quantitative data indicates that a joint venture or a wholly owned subsidiary is the best option to enter the Russian market, however there is no „best“ market entry strategy. It rather depends on the product, the company's preferences and on the resources available.

The remaining paper is structured in the following manner. The next section provides a literature review of the underlying theory, the PESTEL analysis and the international market entry strategies. The methodology is then explained in the third section. Section 4 offers an analysis of the current Russian market with the help of PESTEL, while section 5 discusses the current trade relations between Russia and the EU briefly and the trade relation with Germany. A general discussion and conclusion will be given in the final section with future research directions and limitations of this paper.

## 2. LITERATURE REVIEW

This section examines the underlying theories applicable to enter the Russian market and reviews existing literature. The theory exercised in this paper, as the PESTEL analysis and the international market entry strategies.

### 2.1 PESTEL Analysis

The effectiveness and performance of an organization depends on the right management of opportunities, challenges and risks which occur when the external environment of the company changes. One well-known tool to analyze the general environment is the PESTEL analysis (Mullins, 2005).

Johnson et al. (2011) indicate that the PESTEL framework serves to point out future problems for the organization. With the help of the PESTEL analysis “key drivers of change” can be identified (p.49). With those key drivers different future scenarios can be constructed. The PESTEL framework divides the influences on the environment in six categories: political, economic, social, technological, legal and environmental (Johnson, et al., 2011; Johnson & Scholes, 2008; Mullins, 2005; Gillespie, 2007). Also, Bovaird and Löffler (2009) categorise the PESTEL analysis into the six factors. They say, it “sets out a statement of the main factors that are likely to impact on external stakeholders in the future” (p. 86). They additionally point out, that risk assessment is a significant part of the analysis tool (PESTEL).

Yüksel (2012) divides the basic functions of the PESTEL analysis in two parts. First, analysis of the environment the company operates in; second, it provides data and information which the company can use to foresee future happenings. However, Yüksel (2012) also indicates, that the PESTEL analysis is limited regarding measurement and evaluation.

Further, Gillespie (2007) claims there are many factors in the macro-environment that will affect the decisions of the managers of any organisation. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. Managers can analyse these factors with the help of the PESTEL model.

According to Donnelly and Harrison (2009) PESTEL analysis is a framework of external forces. They state that organisation needs to be aware of the environment in which it operates and to do so effectively it has to consider a broad range of factors. The roles of the PESTEL analysis are the key factors which affect the industry generally and the organisation in particular. Using the model the organisation can develop a systematic approach to analyse the external environment.

Johnson and Scholes (2009) and Johnson et al. (2011) see the macro-environment as the highest-level layer consisting of broad environmental factors which have an influence on nearly all organisations. Moreover, they explain that the PESTEL framework provides a comprehensive list of influences on the possible success or failure of particular strategies.

Politics deals with government's tasks; Economics is about macro-economic factors (e.g. exchange rates, business cycles and differential economic growth rates). Social concentrates on changing cultures and demographics. Technological points out innovations. Environmental is concerned about “green” issues; and finally Legal deals with legislative constraints or changes (e.g. health and safety legislation or restrictions on company mergers and acquisitions). Furthermore they indicate that many of these factors are linked together (Johnson & Scholes, 2009; Johnson, et al., 2011).

Doke and Hatton (2007) explain, the purpose of the PESTEL analysis is to make one look around and see what is happening in the broader economic and business environment. They add that all businesses are part of a larger system, the economy. Instead, Rahman et al. (2014) make use of the PESTEL analysis as a “situational analysis” that identifies the key external forces that influence the company (p.91). Moreover, it helps to point out the advantages and disadvantages of a business strategy and prepares for possible changes that might occur “to the industry and to the global economy in general” (p.97).

According to Mullins (2002), the PESTEL analysis is a common approach for examining the general business environment in order to manage the future opportunities and threats from probable changes in the environment. McMillan and Tampoe (2000) state that the PESTEL framework represents a guide to the general environment but is based on only historical data and the past, but it refers to forces of changes in the environment and can be used to forecast the future.

A modified way of the PESTEL analysis is also used by Vecchiato and Roveda (2010) as a component of forecasting change in the environment. The strategic foresight, as they call it, consists of three classifications that define the “target content” (p.1531). The classifications are field, scope and time horizon. The classification scope is in this study of importance, since it takes a closer look at the different environment levels: micro, meso and macro-level. Vecchiato and Roveda (2010) hold that going beyond micro level, by looking at meso and macro level, it shows a long-term orientation in the strategic foresight of the company. It takes into account drivers of change that have a broader impact not only on business (micro) or industry (meso) level but also globally on a macro level. Especially, the results of the macro-level analysis are used to support and determine the decisions regarding business areas or operations (Vecchiato

& Roveda, 2010). Hence, doing a PESTEL analysis (macro) helps to look at all important factors that might affect the success or failure of the business and its environment.

## 2.2 Market Entry

One main part of market entry strategy is the aspect that a company decides to expand internationally. There are many reasons for firms to engage in internationalisation. According to Hollensen (2014) internationalisation can be understood as doing business in various countries across the world, but is most-likely limited to one region, such as Europe. The reason to go international is the possibility to gain higher profits and cash flows. This can be done for example by exploiting advantages over the local producers (Pike & Neale, 2009).

Nowadays, there are less barriers to international trade, investment, and migration. The improved legal framework leads to reduced risk when it comes to unknown foreign partners. Also communication got simpler, cheaper and better. Traveling by plane is more affordable and the internet is continually improving its speed and capacity (Johnson et al., 2011).

According to Lu and Beamish (2001), a company which goes international, has to consider the differences between “host and home markets” (p. 567). Werner (2002) does not only regard the differences in home and host country, but uses five factors as indicators of a firm’s entry strategy. The factors include home and host country factors, which consist among others of “restrictiveness, cultural distance, market structure, and location costs”, multinational enterprise (MNE) factors, such as “strategic options, experience, structure, financial factors”, transaction costs (factor), and industry factors” (p.282).

Bernkopf (1980) underlines that the participation of doing business abroad is possible in many ways. It depends on the goal the company has and on the available resources. Johnson and Scholes (2009) and Johnson et al. (2011) indicate that depending on how much the firm is operationally involved in the foreign place and how many resources are used in that market, different types of entry possibilities exist. Neale and Pike (2009) underline that the entry mode decision depends on the “degree of commitment” (p. 659). Another aspect that needs to be considered, is international involvement, since the different market strategies vary in the degree of international involvement (Doole & Lowe, 2004). There are strategies that include nearly no involvement in international markets, but also strategies with high involvement by which the company makes most of its income in the market abroad (Doole & Lowe, 1999). Rasheed (2005) claims that entry modes “involve two interdependent decisions – location and mode of control” (p. 4). Anderson and Gatignon (1986) show, that control is the “single most important determinant of both risk and return” (p.3). Entry strategies with high control can lead to higher return and risk while low control strategies (e.g. licensing) minimize resource commitment and also reduces return.

According to Keegan (2001) the decision on entry into a specific market is influenced by three key factors:

- 1) how many resources and what investment are necessary to enter the market
- 2) to what extent can the manufacturer control cooperative activities in the foreign market and
- 3) how much knowledge can the manufacturer gain about the foreign market by this market entry alternative.

To some extent, the choice of entry method depends on the level of resources available to the firm as well as commitment and involvement, but also on factors, such as marketing and financial, human and cultural and other resource requirements,

as well as the organizational structure (Thomson & Martin, 2010; Johnson et al., 2011; Doole & Lowe, 1999). Moreover, the market entry methods have to relate to the company’s overall strategy, goals and the time periods in which it wishes to achieve its objectives. Doole and Lowe (1999) also point out that for a successful market entry strategy, the management of the company has to have the right skill, ability and attitude towards international marketing and needs to be aware of the power and nature of competition. .

In essence, Bennett and Blythe (2002) state that the firm needs to evaluate carefully all the available options, the costs, possible loss of control and the risks involved.

Next, the company needs to be aware of differences which might exist in different industries, and also markets. For instance, the defence industry still has trade barriers (Johnson et al., 2011). Furthermore, the Chinese market is very different from the European and even has differences within the country itself (Johnson et al., 2011). These differences in industry and market allows, a firm to combine different strategies to enter the foreign market (Petersen & Welch, 2002).

According to Brassington and Pettitt (2006) each method carries its own risks and benefits and is appropriate for different kind of organisations and situations. A good entry strategy at one place can be bad at another. Hence, each strategy can have different benefits and disadvantageous (Anderson and Gatignon (1986). However, with reference to Hollensen (2007) there is, no ideal market entry strategy. Different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets.

Due to the given complexity of internationalisation it is important to investigate each possible market in order to find the most appropriate one (Johnson et al., 2011).

Once a national market is selected for entry, the organisation needs to decide how to enter it (Johnsen & Scholes, 2009; Johnson et al., 2011; Hollensen, 2014). Hollensen (2014) defines an international market entry mode as “*an institutional arrangement necessary for the entry of a company’s products, technology and human capital into a foreign country/market*” (p.325). There is a number of different entry modes given to enter a foreign market

Hollensen (2007, p. 297) says “the firm’s choice of its entry mode for a given product/target country is the net result of several often conflicting forces”. The need to anticipate the strength and direction of these forces makes the entry mode decision a complex process with numerous trade-offs among alternative entry modes (Hollensen, 2007).

It can be distinguished between five key entry mode types; exporting, licensing and franchising, joint ventures, and finally wholly owned subsidiaries (Johnson et al., 2011; Johnson & Scholes, 2009; Brassington & Pettitt, 2006; Rasheed, 2005; Kotler, Armstrong, Wong & Saunders, 2011).

Neale and Pike (2009) see two basic possibilities for foreign market; via transactions, and via Foreign Direct Investment (FDI). They subdivide transactions in exporting (spot transactions; long-term contracts; with foreign distributor or agent), licensing technology and trademarks, franchising and direct investment further into joint venture and wholly-owned subsidiary.

Additionally, Kotler and Armstrong (2010) argue that a company has many options to enter an international market, from exporting products, to working jointly with foreign companies or even holding its own foreign-based companies. Each succeeding strategy involves more commitment and risk, but also more control and potential profits.

Petersen and Welch (2002) state that the number of mode combinations depends on how broad the categories are and therefore may vary. They observed nine different modes, including: “exporting, licensing, joint venture, sales subsidiary, and manufacturing facilities” (p.158), while Kerin and Peterson (2013) see four options: exporting, licensing, joint venture, and direct investment.

They underline that the degree of “financial commitment, risk, marketing control, and profit potential increases” while moving from exporting to direct investment (p. 633). Exporting is normally preferred for initial entry and “evolves towards foreign based operations” (Hollensen, 2007, p. 347). Keegan (2001) claims if a company does not have the resources (either, financial or other) to go international or does not want to engage, it might choose exporting as the entry strategy. Subsidiaries, joint venture or strategic partnerships would be suitable for companies who want to monitor the marketing activities more precisely. In case the company wants to produce in the foreign market it can choose between “buying, building and renting its own manufacturing plant or signing a local licensing partner” (p. 269).

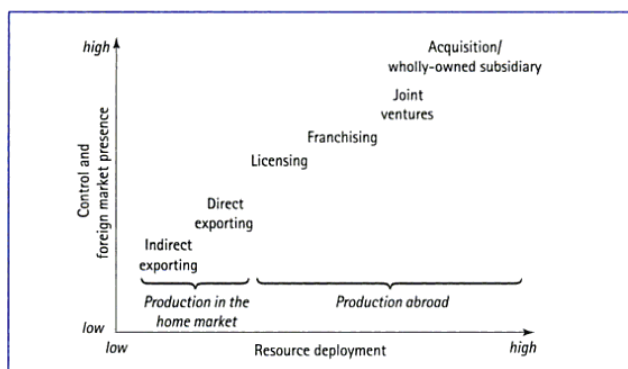


Figure 1: Market entry strategies

## 2.2.1 Exporting

Exporting, either direct or indirect sale of goods and services to foreign customers is the most common mode to enter foreign markets (Hollensen, 2007). According to Kerin and Peterson (2013) with this entry strategy the company has to make the smallest number of changes regarding its “offering, organization or marketing practices” (p. 634). Kotler and Armstrong (2011) see in exporting the simplest way in foreign entry. The companies can occasionally export their surpluses, or expand exports to certain markets. In both cases, production of the goods would happen in the domestic market and hence “the company’s product lines, organization, investments, or mission” do not need to change much (p. 587). Johnson et al. (2011) see export as the “baseline option” (p. 284). It is best for product and services, which can easily be transported and when dependence on the local companies is minimized (Johnson et al. 2011). Two forms of exporting can be distinguished: indirect and direct exporting.

### 2.2.1.1 Indirect Exporting

Indirect exporting occurs with the help of an independent agent (Pike et al., 2009). The manufacturer makes use of the help of independent organizations, which are situated in the same country (Hollensen, 2014). Hollensen (2014) claims that the “sale is like a domestic sale” because the products are shipped by the independent organization from the homecountry (p. 349).

According to Kotler et al. (2012), a “firm does not require an oversea marketing organization or network”, since international marketing intermediaries provide knowledge, competences and services (p. 587).

Indirect exporting requires little investment, and lower resource commitment by the manufacturer, while it brings immediate profitability and is less risky (Kotler et al. 2012; Rambocas, Meneses, Monteiro & Brito, 2015). Furthermore, the distribution by the local independent organization creates greater local appeal and enhances brand acceptance in the foreign country (Rambocas et al., 2015).

However, this method also carries some risks. The use of agents or export management companies lead to less control (Hollensen, 2014). When the products are sold, the manufacturer has no influence on the chosen distribution channel or the pricing which can lead to under- or overpricing or a wrong distribution of the product (Hollensen, 2014). This could lead to image or reputation damages in the market abroad. Additionally, it might occur that intermediaries show too little effort and thereby oversee opportunities (Hollensen, 2014). Lastly, the initial profitability might turn out to be short-term, since the long-term development and growth of the company, including the ability to enhance its technical competencies, is dependent on the external party (Rambocas, 2015).

Translating this concept to Russia, it would mean that there is no direct relationship between the European manufacturer and the Russian consumer. With this market entry all functions, costs and political as well as economic risks are transferred to the export management company (Perlitz & Seger, 2000). As the business’ future perspective with the current political situation in Russia is more risky, this method would allow to gather information about the Russian market and therefore might be an appropriate strategy to apply as a first step into this market.

Indirect exporting is most suitable for companies which want to try out the foreign market, since only a minimum of resource investment is required. If the company is successful in the foreign market, it can decide to engage in direct export by investing more resources and building their own export division (Hollensen, 2014).

### 2.2.1.2 Direct Exporting

According to Kotler and Blimal (2001), the company can engage in direct export in four different ways. Either by an affiliate or their own independent export department which are located in the home country, by a business unit abroad or subsidiary of the business, by travelling export agents or lastly by distributors in the foreign country. Nowadays, many companies make use of the internet to deal with their export activities (Kotler & Blimal, 2001).

Engaging in direct export, means the firm will be involved in “building up overseas contacts, undertaking marketing research, handling documentation and transportation, and designing marketing mix strategies” (Hollensen 2014, p. 353; Rambocas, 2015). Consequently, this higher involvement will increase investment costs (human and financial), risk and requires commitment of time (Rambocas, 2015). A certain degree of risk is mitigated by the relationship to distributors and sales agents, who are more committed to push existing products and new products to the market and ensuring its success (Rambocas, 2015). However, the chance to earn higher profits increases, while the company maintains full control over distribution activities and operations (Kotler & Bliemel, 2002; Rambocas, 2015). Therefore, companies who view the maintenance of power as important, choose direct exporting (Rambocas, 2015).

### 2.2.2 *Licensing/Franchising*

In essence, licensing is a way to enter an international market without investing capital. It is an agreement that gives another person (licensee) something valuable in exchange of a fee or royalty (Kotler & Armstrong, 2012; Hollensen, 2014; Kerim & Peterson, 2013). What is seen as valuable can be a trademark, patent, trade secret, intellectual property, manufacturing processes or other valuable items (Kerim & Peterson, 2013; Kotler & Armstrong, 2012). The licensee thereby receives production and selling rights of the valuable item in its country. Among the advantages of licensing are that the licensor does not need to invest resources and capital to build up production overseas, is faced with lower risk, and makes use of the facilities (production, marketing and existing contacts) of the licensee which enables a faster market penetration (Pike & Neale, 2009; Kerim & Peterson, 2013). Furthermore, patents would be better protected, especially in countries with weak protection, or contracts more likely signed when government is more closed off towards foreign businesses (Hollensen, 2014). However, there are also drawbacks connected to licensing. Among others, the licensee might not be able to fulfill the level of competences needed in management and marketing to fully exploit the market which lowers the level of income but increases costs (Kerim & Peterson, 2013). Next, the licensing fee is often only a small percentage of the turnover and often is viewed as unfavorable (Hollensen, 2014). Regarding the quality of the products, it becomes difficult for the licensor to maintain control over the level of quality and has to accept that it will be sold under the brand name (Hollensen, 2014).

According to Kerim and Peterson (2013), franchising is seen as variation of licensing while Hollensen (2014) and Pike and Neale (2009) see it as two different methods of market entry. Pike and Neale (2009) and Hollensen (2014) understand franchising as a way to still maintain a certain degree of control of its trademarks, technology or trade secrets by licensing for example “fully-packaged business systems”, such as a fast food restaurant while licensing on its own gives away control (Pike & Neale, 2009, p. 660; Kerim & Peterson, 2013). The franchisor not only controls but coordinates the activities of the franchises directly and is able to achieve higher success with the franchise by accessing local knowledge and resources and can better adapt to the environment (Hollensen, 2014).

### 2.2.3 *Joint venture*

Literature identifies joint ventures as a partnership between at least two different parties where each party maintains its identity (Hollensen, 2014; Pike & Neale, 2009). A joint venture mode is already seen a variation of direct investment and is exercised in those cases, where competitive advantage is dependent on intellectual property or long-term performance and the wish to maintain control is present (Johnson et al., 2011; Pike & Neale, 2009). In the partnership a local business is created and invested in and thereby ownership shared (Kerim & Peterson, 2013; Johnson et al., 2011). In an international perspective, the partnership includes a local firm and a foreign company which means that they are located in different countries (Kerim & Peterson, 2013; Hollensen, 2014). Due to the shared ownership, the foreign company is able to maintain direct control, while the local partner's interest is aligned in order to achieve a value maximization for the shared local business (Johnson et al., 2011). According to Kerim and Peterson (2013) there are two main reasons why a company would engage in joint venture. First, a joint venture is applicable, when one party does not have all necessary resources to enter a foreign country or market alone. Especially financially, a joint venture brings benefits, since the shared

partnership is able to lower capital costs (Pike & Neale, 2009). Second, some governments only allow foreign companies to enter the country by engaging in a joint venture with a local firm, which is often the case in China (Kerim & Peterson, 2013).

The main advantages in a joint venture are faster market entry due to the knowledge the foreign company has, new business opportunities in an existing sector, the possibility of entry in country that have restrictions for foreign businesses and lastly, the opportunity to cooperate in R&D which is usually very costly (Hollensen, 2014). The challenge in a joint venture is the difficulties in the management aspect. The success or failure of a joint venture depends on the choice and quality of the partnership, in what extend control and knowledge is shared and how the external environment is supportive in terms of legal aspects (Kerim & Peterson, 2013).

### 2.2.4 *Wholly owned subsidiary/direct investment*

According to Kotler and Armstrong (2010) another way of direct investment is by acquiring a foreign based assembly or manufacturing facility. By investing and owning a foreign subsidiary or business division, the company shows the biggest commitment. It is often followed after the company has tried out the market with one of the previous mentioned market entry strategies (Kerim & Peterson, 2013). According to Pike and Neale (2009), a company is able to choose between vertical integration and horizontal expansion when entering the global market. In an vertical integration, the company can expand backwards which means that it would create raw materials or components needed in its production or forward by supporting the final stage of production or even the distribution of the product (Pike & Neale, 2009). In a horizontal expansion the company copies the existing business and its operation in a foreign country (Pike & Neale, 2009). Another way of expanding, besides the acquisition of an existing company, can also be accomplished by a greenfield investment which means that a completely new facility is built (Pike & Neale, 2009; Johnson et al., 2011; Hollensen, 2014). By building a new plant, the company is able to integrate the newest technology while forming it according to necessary requirements and thereby avoid creating issues which might happen when people are faced with change (Hollensen, 2014).

According to Kerim and Peterson (2013), some of the advantages that are connected to a direct investment are cost savings, better knowledge of market conditions and less restrictions which are considered to outweigh the disadvantages, such as currency fluctuations, falling markets or changes in government structures (Kotler & Armstrong, 2010).

## 3. METHODOLOGY

This paper tries to find out how specific firms of the agriculture industry deal with the current sanctions. A case study is chosen as a research method, in order to find out, how the companies within the industry restructured themselves after the sanctions and what alternative strategy they use to overcome the problem. The method makes it possible to get an understanding of the dynamics within a single setting, including single or multiple cases and is based on qualitative data, such as interviews, questionnaires, and observations, and quantitative data, such as numbers, or both (Eisenhardt, 1989; Yin, 1984). With the use of both data types, qualitative data is able to explain the relationships behind the quantitative data, while the quantitative data is also able to strengthen the relationship revealed (Eisenhardt, 1989). This research is therefore based on both, qualitative and quantitative data. The qualitative data is

obtained by an interview and is supported by quantitative secondary data.

With the help of literature, it was identified what variables are determinants for the market entry strategies, while the PESTEL analysis gave an insight of the current situation of the Russian market. However, the choice to engage in the international market depends on internal and external factors. Internal or company-specific variables are, for instance, degree of control and risk, resources availability, commitment, international involvement (Thomson & Martin, 2010; Johnson et al., 2011; Doole & Lowe, 1999). External factors on a macro-level are indicated by the PESTEL analysis, namely political, economical, social, technological, environmental and legal factors. Since, this research is conducted in a short timeframe and it would be impossible to analyze the internal and external factors. The problem is solved by solely looking at the companies' business operations after the sanctions were enacted in comparison to the practices prior. Hereby, an emphasis will be put on the external factors impacting a company's specific business area, or more precisely how macro-level factors impact the meso-level of the company (Vecciato & Roveda, 2010).

### 3.1 Qualitative Data

#### 3.1.1 Sample

The qualitative sample consists of ten interviews with managers and employees which are considered experts in the agriculture industry in Russia. The contact data was on the one hand acquired through the author's former employer and on the other hand through acquaintances. Three of the ten interviewees are managers who are responsible to lay the groundwork for establishments in Russia, while one of them even moved to Moscow for an undefined time. Another one considers moving to Brazil to make business with Russia from there, as the sanctions did not allow him to continue his work from Germany. The remaining interviewees are employees which are connected in their task with the Russian market.

#### 3.1.2 Interview and interview design

The interviews took place from 3rd of June till 10th of June with an average time of 45min per interview. Following Fey and Beamish (2000) the author has chosen a semi-structured interview approach. A semi-structured interview is build by a "core set of structured questions" and allows the interview partners a degree of flexibility to explore certain relevant aspects that come up during the conversation in-depth (p.144). It allows to get a more detailed and company-specific point of view and allows to address certain issues that could not have been foreseen by the author in the interview's design process. The interview structure can be divided in three sections. The first section is considered as an introduction, where the interviewee was welcomed and general questions were asked. Among the general question, the author asked about the name, age, and gender of the interviewee. Furthermore, work related information, such as name of the company, duration of employment, the position within the company and how the interviewee and the company is related to Russia, was inquired. The second and third section concerned the core set of questions which are based on the PESTEL framework and the market entry strategy. For each PESTEL factor questions were asked to find out, how the business has changed. The third section included the aspect of market entry and the difficulties and change the company faced with the current situation. Depending on the answer given to certain aspect, further inquiries were made to get a better insight.

The interview consisted in total of 15 questions, excluding the introductory questions (name, age, gender) and the work related questions (company name, employment duration, position in company).

### 3.2 Quantitative Data

The quantitative data is acquired via a variety of data sources, including newspaper (Financial Times and Russian Today), official institutional reports of GTAI (Germany Trade and Invest), the AHK (Außenhandelskammer Deutschland), European Commission, the CIA (Central Intelligence Agency) and the ministry of Economic Development of the Russian Federation. The information included statistics about general trade expectations for the year 2015 and historical trade information of previous years (2013, 2014), as well as survey results about how the current situation is perceived by German companies in Russia. Furthermore, general data, such as GDP, debts, FDIs and data about demographic change, is used to complement the analysis and strengthened or underline the statements of the interviewees. Furthermore, the quantitative data was able to bring a more general picture on the current situation in Russia and was able to explain some information further which was gained during the interviews.

## 4. ANALYSIS

### 4.1 Environmental Analysis of the Russian Market

#### 4.1.1 Political

Currently many political scenarios occur in the Russian Federation. First, the increasing behavior towards protectionism, second, the Ukraine conflict and its aftermath, third, the Russian search for new allies in East Asia.

Since the financial crisis, many countries turned to protectionism in order to protect their markets. Protectionism means to put special tariffs on certain import goods in order to support the domestic production and increase the homecountry share (Regan, 1986). In fact the European Commission pointed out in their annual report 2014, that Russia was one of the countries who have introduced the most "trade-unfriendly measures". However, other countries has used those instruments, too, in order to protect their markets, especially after the financial crisis (European Commission, 2014), but Russia has the most restrictions on import and also export restrictions are increasing. They have raised the import costs on a variety of products, such as machinery, motors and chemicals and in the end of 2013 also agricultural products, such as beef, pork and poultry meat. (European Commission, 2014).

Next, March 2014 was an important month for Russia, since Crimea was annexed and in the following election the majority voted for the independence from the Ukraine and an affiliation to Russia (Dolan, 2014). The West claimed that Putin has violated international law and that Putin infringed with the annexation on principles of the UN Charter – Principle of self determination and territorial integrity (Burke-White, 2014). Therefore a change in the political relationship between Russia and Europe and the US has occurred. The EU and the US condemn the referendum as illegal and refuse to accept its outcome. In order to convince Russia to change its course, diplomatic ways were undertaken. Russia is being suspended from the G8 and the West has announced sanctions against certain companies or individuals related to Crimea (Acosta, 2015). Russia itself answered among others with more

restrictions on agricultural products. They have prohibited the import of live pigs, pork and other related products from the EU as a countermeasure (European Commission, 2014). As a result the EU has “requested the establishment of a WTO panel” (European Commission, 2014).

Due to all the conflicts and sanctions, Russia searched for new markets in order to save its economy and even strengthen it in the longterm. It allied further with East Asia. For instance, Russia agreed with China to work jointly on the energy, finance, and high-tech sectors. Further dialogs are held with South Korea and also plans with Singapore are currently made (Lukin, 2015). Finally plans with Brazil and New Zealand are made for the import of meat and cheese to equalize the loss from the agricultural ban (Walker & Rankin, 2014).

In short, Russia’s political situation is not stable, with the war-like situation in the Ukraine and the therefore arising conflict with the West, it is highly challenging, however, with Russia’s move towards East Asia and other markets in the world, Russia might get out of the crisis even stronger.

#### 4.1.2 Economic factors

According to Auslandshandelskammer (2014), the Ukraine crisis has not caused the economic problems it heated them up. However, the economical situation is highly challenging for Russia. For 2015 a GDP drop of 5% is expected and also for 2016 the forecasts are negative, while the inflation is expected to climb up to 17% (GTAI Investitionsklima Russland, 2015). Finally, the oil price dropped 60% between last June and January 2015, from \$110 to below \$50 a barrel (Bowler, 2015). Currently a barrel oil costs about \$60, though it has recovered a bit, the future perspectives depend on several external factors. The low oil price is a major drawback for Russia, since 70% of the Russian export income is related to oil and gas. Russia “loses about \$2bn in revenues for every dollar fall in the oil price” (Bowler, 2015).

Next, the drop in the Rubel/Euro price caused much trouble. In December 2014 the rate reached an all-time high with an exchange rate of 100 Rub/1 €. Today it stabilized around 60 ruble for one Euro. From 1.1.2014 till January 2015 the ruble lost almost 2/3 of its value. Even though, a weak currency has its benefits: it can serve as an engine for exports and might increase the probability for expansion in tradable industries, other factors such as “high level of capacity utilization, structural rigidities, and the surging cost of imported investment goods and credit” are likely to diminish the benefits of the weak Rubel” (Worldbank, 2014).

Moreover, the huge net capital outflows (151.6 billion in 2014) and the degradation of the credit by the rating agency S&P on 26. January 2015 weakened the economy further. This causes not only higher costs at the credit market, but also decreases the credit lines (Auslandshandelskammer, 2015).

Nevertheless, Russia has avoided a recession. The Russian government and Central Bank accurately responded to the situation with policies which successfully supported the economy. Also its external debts and reserves of foreign exchange are solid. With 17.92% debts of its GDP (compare: Germany: 74.70%, USA 101.53%, China: 22.40%, India 67.72%) and \$365 billion reserves, it will support Russia during temporary hard times (Ostauschuss der deutschen Wirtschaft, 2015).

Additionally, Russia has been intensifying their business relations with East Asia i.e. China and India (Worldbank, 2015). The sanctions could accelerate the change in the economic structure of Russia as the countries Russia is making

business with could change (Worldbank, 2015). For instance, Russia aims to establish a world bank with China and India as a countermeasure to the Western world. The turn to East Asia would further decrease trade between Russia and Europe (Sharkov, 2014). Additionally, since the beginning of 2015 the Eurasian Economic Union was enforced. Similar to its role model the European Union, it is an agreement for external customs and trade and consists of 175.7 million people and over 20 million sq. km land (Members: Russian Federation, the Republic of Kazakhstan, the Republic of Belarus and the Republic of Armenia) (Eurasian Economic Commission, 2015). If it would be possible to link the two markets EU and EEU it would be beneficial for the economy of both parts (Ostauschuss der deutschen Wirtschaft, 2015). However, this does not seem to be a realistic scenario in the near future. As Russia has already joined the WTO in 2012, but failed so far to fulfill many commitments (United State Trade Representative, 2014). Also it seems that each country within the EEU prioritize their individual interests, despite common goals (Auslandshandelskammer, 2015).

Nevertheless, Russia tries to become more attractive for foreign investors. It established special economic zones for foreigners, which allows them to “access ready-for-use infrastructure, engineering, transport, and engineering network connections” (Ministry of Economic Development of the Russian Federation, 2013) such as heating, electricity, gas, water, telecommunications is provided at the expense of the Russian Federation. This results in a huge cost reduction for investors and quicker set up times of the businesses. If the German investor will be able to use it might depend on the relationship between Russia and the West. So far it is observable that Russian companies more and more prefer to do business with countries who have not taken part in the sanctions, such as China or the Swiss. (Gtai Investitionsklima, 2015).

#### 4.1.3 Social Factors

Russia’s population of about 142 million may seem promising, but considering the country’s size, the density is low. Most Russians are born and live in urban places; three quarters live in cities. The two major cities are the capital Moscow with more than 12 million inhabitants, and St. Petersburg with nearly five million (Central Intelligence Agency, 2015).

Rising unemployment and poverty are challenges the Russian government has to face. However, a major challenge to the economic and social development is the demographic change Russia experiences, which is considered even more threatened than of Western Europe. Since 1992, the population has declined by six millions due to high mortality and morbidity which can be traced back to the lower level of healthcare services and early mortality (Vishnevsky & Bobylev, 2009) Russia’s death rate is higher than its birth rate, hence, a decline in the population’s growth is expected.

The fertility rate is about 1.61 in comparison to the world this is on place 179 (Central Intelligence Agency, 2015). As a consequence it is expected that the Russian population will downsize from 146 million to 130 million by 2020, while the average age will be expected to be higher (Worldpopulationreview, 2015).

#### 4.1.4 Technological factors

Russia’s growth is mainly dependent on the natural resources sector. However such a growth is not sufficient in the long run. Therefore Russia’s economic future will also depend on the “successful development of the innovative industries”, such as the Information and Communication Technology Sector (ICT).



Next to oil and gas this sector is one of the two drivers of economic development. Since 2000 this sector has quadrupled (Institute of Contemporary Development, 2015).

Further, national projects and government programs, such as the Concept 2020, will continue to enhance the development of innovative industries. This challenge has been one of the highest priorities (Institute of Contemporary Development, 2015). A Strategy for the Development of Russia's Information Society was approved in 2007 and concentrates on three main points: national information and communication infrastructure; creation of a scientific and technical basis for innovations; and provision of sufficient, affordable and secure ICT-services (Institute of Contemporary Development, 2015).

Next, Moscow plans for October the annual Moscow Open Innovation Forum in which it aims to introduce experts to progressive practices of the Russian provinces, leading technology companies and promising start-ups in Russia" (Zavvalova, 2014). Additionally, Russia has been working on a strategic cooperation with India. They agreed to build two new geostationary satellites and also are working on a supercomputer in Bangalore (Zavvalova, 2014).

Also, in the agricultural field, there is lots of potential. Due to Russia's huge capacity of farmland, it could play a major role in the world's food supply (Ostauschuss der deutschen Wirtschaft, 2015). However, insufficient technological infrastructure and a weak regulatory environment hinder the potential for technology and innovation to drive Russia's productivity growth (Dirks & Keeling, 2014). Therefore a cooperation with German manufacturer and producer could be beneficial for both sides (Ostauschuss der deutschen Wirtschaft, 2015).

#### 4.1.5 Environmental Factors

Russia is the largest country in the world and reaches over two continents. Its total area is over 17 million square kilometres, and it borders with 15 countries, however it is "unfavorably located in relation to major sea lanes". Russia has all kind of climates. Steppes in the south, humid continental in European Russia, subarctic in Siberia, tundra climate in the polar north. The summers can be cool or very hot, and winters can be cool or frigid, depending where one is (Central Intelligence Agency, 2015). With 120 million hectare Russia possesses nine per cent of the world's farmland, which offers huge potential (Ostauschuss der deutschen Wirtschaft, 2015).

#### 4.1.6 Legal Factors

Two main factors has to be pointed out, when it comes to Russia's legal factors. On the one hand, Russia's judicial system is relatively weak and unpredictable. The system is also under-funded, understaffed and extremely slow in implementing decisions. Additionally, the executor of the Russian legal system are "biased against the weak" (Frve, 2014, p.87) This makes judicial processes in Russia highly inefficient. Further, corruption weakens the system. In the Corruption Perception Index Russia is on place 136, behind countries like Pakistan or Iran (Gtai Investitionsklima Russland). Many foreign investors have experienced problems executing judicial rulings and obtaining approval on contractual agreements. This is presently proving to be a major obstacle for FDI in Russia (Auslandshandelskammer, 2015). However, the government is eager to change and has planned to introduce many legal reforms in order to improve the country's judicial system. In 2010 Russia started to conduct research concentrated on corruption level and structure assessment and efficiency of the

taken anticorruption actions (Ministry of Economic Development of the Russian Federation, 2015)

In May 2011, Russia enacted a number of key anti-corruption amendments to its Criminal Code and the Code of Administrative Offenses of the Russian Federation, which results in higher charges and longer time of imprisonment. Finally, since April 2012 Russia has been part of the OECD Convention on combating bribery of public officials, which means among others, Russia has to prohibit the bribery of international officials by Russian citizen and Russia has to cooperate internationally with other members of the Convention (OECD, 2011).

On the other hand, the geopolitical tensions caused several sanctions from the West. First certain individuals, groups, and companies received travel and business operation restrictions and their assets were frozen. Then, sanctions aimed at Russia's military, energy, and financial sectors. The six major Russian state banks, energy and defense corporations has limited access to EU and U.S. financial markets. Additionally, export of goods, services and technology has been prohibited. In the end, Russia answered with counter sanctions in the food sector. Meat, fish, seafood, vegetables, fruit, milk, dairy products, and many processed foods were banned from the Russian market (European Commission, 2014).

## 5. RESULTS

### 5.1 Framing the Current Trade Relations

In order to investigate the trade between Germany and Russia it needs to be considered that Germany is part of the EU and bind to its principles. Therefore, the relations need to be seen from two different angles, first the EU perspective and second, the country-specific aspects of Germany.

#### 5.1.1 Trade relation Russia – EU

Comparing the trade relationship between EU and Russia over the years, initially a positive development has been registered, however currently the trade relations and political relations are beginning to totter. In 1997 the Partnership and Cooperation Agreement has been signed to regulate political and economic issues between the EU and Russia. One main goal of this agreement was to enhance trade and improve the relations between Russia and EU further. It was a success; until 2012 a steady growth in trade has shown which was only interrupted temporarily by the financial crisis. In order to build on the success, further negotiations about a new agreement have been started. The agreement should build on WTO rules; however in 2010 the negotiations found an end, as no progress was achieved in the Trade and Investment part up to today.

The market analysis of Russia has shown that the country struggles with issues from different aspects, beginning at structural problems, to internal political discrepancies with Ukraine resulting in sanctions from the West and trade barriers that hinder the ease of business. Russia became a member of the WTO in 2012, but there has not been much improvement in the trade relations since they fail to fulfill the requirements to facilitate custom processes and raise production standards. Instead of working to meet the requirements Russia increased protectionism measures. Those measures even increased since the sanctions from the West (European Commission, 2014) According to the European Commission (2014) Russia reaches the top of the list of "trade-distortive measures" (p. 17).

As Germany is one of the most important trading partner for Russia and German firms are also dependent on the Russian

market, the current political development between the EU and Russia is negative for both, Germany and Russia.

### 5.1.2 Trade relation between Germany and Russia

Germany does realize a decreasing trade relation with Russia. In 2014, German exports decreased by 18% (€6,5bn), in January and February 2015 even by one third (Ostausschuss der deutschen Wirtschaft, 2015). This development is confirmed by the Ostausschuss der deutschen Wirtschaft (2015), who reports that 91% of the companies doing business in Russia expect a worse situation than during the financial crisis. Only 15 % evaluate their current situation as positive. Also 70% of the interviewees forecast a decline in sales of 10-15% or even more. Additionally, Interviewee 1 expects their “profits [to be] moving backwards based on declining prices and collection risks”. He relates that to the depreciation of the Ruble, which is especially troublesome for the exporters (Khlebnikov, 2014). For the Russian citizens the products are too expensive, thus less is consumed and demand for imported goods is low. Interviewees 8 and 10 complain about “reduced volumes, increased collection risk, declining prices and increased hurdles by Russian customs regulation”.

Especially machinery, motor and chemical companies are affected as they represent more than half of the German exports to Russia (Ostausschuss der deutschen Wirtschaft, 2015). However, since the ban of agricultural products, this industry is suffering the most. According to Interviewee 6 no trade is possible anymore and even though the “EU and the German government try to support” it is not enough. The loss of such a “huge market” is not easy to compensate. He tried to find new markets, but it is “very difficult”. This is confirmed by German Mittelstand (2015), who claims that firms who had a business relation for more than 25 years cannot easily move to other markets. The worst thing for interviewee 7 is that “it came so unexpected” for him. He could not prepare for the situation and is now dependent on the German government and the EU. Interviewee 2 still can export his seeds, but he is “scared” about the future. He expects the political disagreements to hold for more years and fears that he might be avoided or also affected by further restrictions. He is already looking for alternative markets as he was not always “happy with Russian customers”. He still expects some pending payments which the Russian claim not to be able to cover anymore. Even though his lawyers are involved, he does not expect to see that money anymore.

Interviewee 5 even thinks about making a joint venture with a Brazilian firm, as “Russia is the second biggest importer of Brazilian beef”. The interviewee has already undertaken certain steps towards this goal, but would like to wait how the relation will develop after the agriculture ban. After inquiring why not directly entering the Russian market, the interviewee indicated that laws and regulation will be easier for him in Brazil as he has family over there that is related to the food industry. For him this means trustworthy people and the necessary know-how.

Interviewee 9 pointed out, that “everything [has] changed” as the company was only exporting meat to Russia. The only thing remaining is the “good relation to [the] business partners”. With the help of the business partners, this company is currently working on a new vision and drafts a new business plan in order to create a local production site either in Moscow, Belgorod or Samara to avoid those problems in the future (Interviewee 9). As was pointed out in the social aspect of the PESTEL analysis, Moscow is the most highly populated city in Russia. Building a production site in the Moscow region would not only benefit the company but also the population itself. By building a new

production site, the company is able to build workplaces for the locals and contribute positively to the increasing unemployment in Russia. Being close to one of the biggest cities, offers a big potential customer base, additional to the existing distribution channels the Russian partner already has.

As the company tends to enter the market via a joint venture strategy, this means more commitment and the use of more resources, but they also know about the advantages of their local partners. Especially, their “knowhow and business relations” to other Russian companies is of utmost importance (Interviewee 9). According to Auslandshandelskammer (2014) 85% of the companies doing business in Russia decide to enter the market with a joint venture strategy or with a wholly owned subsidiary. It is a very time consuming way, but lures with many benefits. Also Interviewee 4 knows about the troubles. He points out, that he tries to “enter the Russian market via an own subsidiary since three years now.” Fighting against bureaucracy and financial difficulties hinder his company to quicken the process. However, he is happy, that his company has already bought some farmland in Russia and built some pigstall and other facilities. So, at least, he can “use the Russian market [in the current time] to some extend”. Interviewee

However, when the Interviewees were asked about the best market entry strategy, there was no clear answer. Many pointed out that it depends on the firm’s size and “of course on the money available” (Interviewee 2). Interviewee 4 pointed out, that it depends on the company’s preferences and the products. 30% said, they prefer export (Interviewee 1, 6, 10) as it is profitable and has calculated risks against which the firms can mitigate with the right insurance, 50% claimed joint venture to be a good strategy (Interviewee 2, 3, 5, 7, 9) but “it always depends on the partners” (Interviewee 3). One considered a wholly owned subsidiary to be “fantastic” but he is not yet able to “make that step” (Interviewee 8) and another has already undertaken steps towards it (Interviewee 4).

When inquiring how their answers would change, if money would not be an issue anymore, seven out of the ten interviewees argued in favor of the wholly owned subsidiary. Even though it takes much time, for future success and in order to avoid future political disagreements between the EU and Russia it would be the most suitable (2, 4, 6, 7, 8, 9, 10).

The others preferred joint venture, as it is quicker and they are “happy with [their] business partners in Russia” (Interviewee 1, 3, 5, 9). However Interviewee 8 argued that joint venture never survive in the longterm. Interviewee 3 claims that that always depends on the partners.

Comparing the quantitative data with the qualitative data it is observable that the data is most likely congruent. However, quantitative data indicates that 15% of the German companies operating in Russia are still satisfied with their business operations (Deutsche Ausenhandelskammer, 2015). This is not confirmed by the interviewees as none of them show a positive attitude towards the current situation. Even the interviewee who still exports seeds and is not affected by the sanctions does complain about reduced sales. Theoretically this could mean that those who are still satisfied might belong to an industry which is not affected by the sanctions. Furthermore, quantitative data stated that 85 % of the German firms in Russia are either build up through joint venture or wholly owned subsidiary. However the qualitative data indicated that export is also a very popular strategy (40%). Only if money would not be an issue the clear majority puts arguments in favor of direct investments.

Finally, quantitative data states that the ban is only accountable for one year. The interviewees, however, fear and partially expect that their business relations to Russia are “destroyed” (Interviewee 10) for at least a longer period of time, or even “for ever” (Interviewee 7). The current situation is not easy to bear for the German agriculture industry connected to the Russian market, however, every interviewee hopes for a positive and soon ending.

## 6. DISCUSSION & CONCLUSION

In this research the author has attempted to answer the question of how German agriculture companies should enter the current Russian market. The current literature focuses more generally on entry strategies into foreign markets, predominantly those researches concentrate on stable markets in political calm times. However the author tried to find out which market entry strategy is most suitable when external changes are unfavourable and unpredictable. The analysis showed that there is no general strategy that is applicable in uncertain times. Regardless of the external environment the decision how to enter a market depends primarily on the strategic goal of the company and therefore depends, among others on the type of product, resources availability or degree of control the company wishes to maintain

Looking at the situation now in Russia with the ban on agricultural products a company theoretically still can engage in either type of market entry strategy. The market entry strategies vary in the degree of control and foreign market presence and resource deployment (Keegan, 2001). Exporting has the lowest degree of control, presence and resource deployment, while it increases steadily from licensing/franchising, to joint venture and wholly owned subsidiary which has the highest degree of control and foreign market presence and resource deployment. With the increasing factors, the risk gets also higher for the organization. However, with the increased commitment of the organization, the potential profit increases and the external environment is less likely to interfere in the strategy employed. If a company was exporting products, other than lactose free milk or products or seed potatoes, seed onion, sugar maize hybrid for planting or peas for planting, they will not be able to do so currently due to the ban. If a company has a joint venture or wholly owned subsidiary, this ban is very unlikely to affect the business, since the company is bind to the legal system of the Russian Federation.

In the current unstable times, a company might still engage in *exporting*, but would need to establish its exports in a different country than those who affected by the sanctions. It could establish a distribution center in another foreign country that is allowed to export to the Russian Federation, and start the export strategy form that country. However, this alternative strategy would mean a higher amount of cost and time and might not be very profitable and needs to be evaluated independently depending on the profit margin. It is preferable to engage in a *joint venture* with a Russian partner as the ban of agricultural products would not directly affect the German company. Additionally, a loyal business partner would offer support, facilitate networking, and provide know-how in legal matters since the the legal framework is a complex structure. However, one of the interviews has shown that long-term joint ventures with Russian partners do not always work out, if the partner is not chosen well. Finally, the *wholly owned subsidiary* would offer most control, high foreign market presence and high resource deployment. Although it carries the highest risk, it would be least affected by the ban. However, research indicated that the Russian public companies seem to prefer doing

business with companies who have no ties to the countries involved in the sanctions. Furthermore, building production site or purchasing an existing site requires much patience, since it can even take years until all regulatories are met. Thus, the own subsidiary could lead to more costs than benefits.

Independent of the market entry strategy choice, it needs to be pointed out that once a decision is made and a strategy chosen, it is very difficult, and cost-and time-consuming to change the strategy. Since the ban only runs for a year, a decision to change the market entry strategy and then to implement it, might take longer than the actual ban and should therefore only be made, if the strategy is wished to be changed for the long-term orientation of the company.

Hereby, each company in each industry can choose different market entry strategies and also choose a mixture if assumed to be beneficial (Petersen and Welch, 2002).

### 6.1 Theoretical and Practical Implications, Limitation and Suggestions for Future Research

The study sought to contribute to the existing and emergent literature on international market entry strategies. It provides an insight and a value that is based on the application of theory to a specific industry. The findings have shown that primarily not external factors affect the choice of international market entry strategies, but rather the strategic goal of the company. The external factors, such as identified by the PESTEL framework, however, are able to direct the decision-making process and point out what market entry strategy is applicable or not.

The result of the study benefits companies by pointing out the political circumstances and the benefits and disadvantageous of each strategy when applying in the current situation. The Russian market still lacks in its development and is far behind the countries of the West in terms of custom clearing and production standard. Looking at the “ease of doing business”-Index of 2014, one can see that the Russian Federation holds rank 62, while Germany is on rank 14 (Worldbank, 2015). For Russia this rank means a record high, since they jumped over 30 ranks from 2013 to 2014. This indicates that Russia is becoming a more and more attractive and important market. It has huge potential, regarding resource availability, high population and huge untouched stretches of land including 9% of the world’s farmland. The Russian Federation is on its way to develop further by exploiting new markets and thereby increasing their diversification. Russia should also consider further to loose its dependency on oil and gas and make use of other resources in order to diversify the product offerings of the country. The high dependency on oil and gas, which lies by 70%, makes it highly vulnerable for crisis regarding that sector, for instance, when oil price fall.

The experiences of the interviewees and their companies who engaged in exporting, also shows some negative aspects of doing business with Russia. Besides the current sanction, there have also been issues with the Russian partners regarding non-payments. Therefore, some German companies only deliver the product, if they receive the payment in advance as a collateral measure.

This research has several limitations which should be considered. First, the situation in Russia is an up-to-date topic which is therefore not examined much and further development of the political situation and its effect on business relations and trade relations is unpredictable. Although the sanctions and the ban of the agricultural products runs for one year, some of the

interviewees fear that the issues between the countries will not be solved any time soon, which would mean that future businesses are threatened or even not possible anymore. Currently, there is still too much uncertainty involved in this topic, that a strategic foresight about the development is aggravated. Furthermore, this study is based solely on the agricultural industry and did not examine each company that is part of the industry. The findings are based solely on ten individual interviews of people who are connected to the industry. The interviewees also differed in their position ranging from an employee who is responsible for Russia to CFO who could provide more detailed information based on numbers and direct knowledge how the company is affected by the political situation of Russia. Since the study is based on one specific industry, it is not possible to generalize the findings for all German companies involved in the Russian market which supported by the quantitative findings that report also satisfied German companies (Deutsche Ausenhandelskammer, 2015). Further, the limitation in time and scope only allowed to concentrate on four entry strategies in a broader sense. It would be interesting to examine the entry strategies individually and undertake an in-depth analysis how the entry strategy behaves in a cross-sectional study focusing on different industries. Moreover, it would be highly interesting to investigate how the current political situation might affect other businesses. For instance, it could be examined whether the accusations of publically held Russian firms refusing doing business with firms from countries who take part in the sanctions, is applicable. According to GTAI (2015), Swiss companies already fulfilled their numbers of order for the year 2015, while German companies lack far behind. Therefore, the orders of the companies from non-sanction countries could be compared to the orders of companies from sanction countries in order to find out how far the political issues reach.

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## 9. APPENDIX

### 9.1 Interview questionnaire

Personal Details:

Name:
Age:
Gender:
Name of company:
Employed since:
Position within company:

1. How is your company related to Russia and since when?
2. What is your function within the company and how is that related to Russia?
3. In what sector do you cooperate with Russia?
4. How do you evaluate the dependency of your company on the Russian market?  
How profitable is the business in Russia?
5. How did you establish business in Russia (i.e. Export, joint venture, licensing, mix of strategies,...)
6. What would be a good market entry strategy for a company in your sector to enter the current Russian market?
7. Why did the company decide to enter the Russian market?

*Since the Ukraine conflict many things have changed between the West and Russia*

8. What changes has your company realised?
9. How has demand and supply changed since the sanctions?
10. What changes in law affected your company
11. How did the relationship to business partners changed?
12. How have the political circumstances affect your company (i.e. sanctions)?
13. What are your future countermeasures according to the conflict with Russia?
14. What are your expectations in future for making business with Russia?
15. What are your fears according to the Russian market?