Market strategies for a multinational enterprise

A Dutch Marine Construction Company operating in the Russian oil and gas industry

Умом Россию не понять,

Russia can't be understood with the mind,

Аршином общим не измерить:

Can't be measured with a common yardstick:

У ней особенная стать-

She has a specific characteristic -

В Россию можно только верить .

In Russia it's only possible to believe.

1886 Fedor Tiutchev

Master thesis Economic Geography

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I am a student of the Master Economic Geography (MEG) at the University of Groningen. MEG focuses on the role of different global regions as locations for economic activities, for example flows of knowledge, the recruitment and training of employees and local governments.
The research topic is chosen partly due to being my personal sphere of interest and partly by the company where I was having an internship for five months. I also chose Russia because of my fascination with that country. During my internship period in Moscow, I have experienced differences in mentality; e.g. the way of thinking, acting, reacting and decision making. I have also learned to survive in a complete different foreign country and discovered a lot about myself.
I have chosen a qualitative research, facilitated by interviews with various businessmen and for Van Oord BV, a dredging and marine contracting company with a worldwide reputation for building infrastructure. This report includes the analysis of different operating environments and their influence on an international company operating in Russia. Furthermore, it will give an answer to how Van Oord BV can be positioned in the oil and gas industry as a marine construction company for the following five to ten years. With this research I want to contribute to the knowledge of foreign companies operating in Russia, presently being a popular trend and having a tendency of growing importance in the years ahead.
I would like to thank Anko Bos of Van Oord offshore branch office in Moscow who supported me during my internship and made my adventure in Russia possible. Furthermore, I would like to thank Henk de Weers and Meeme Steenhuis, both employees of Van Oord BV who shared their experiences and kept me company in the office. Also, I would like to thank my dear Moscow office colleagues Olga and Mikelina who helped, encouraged and cheered me up during my stay in Russia.
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Laura Niazy
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ABSTRAKT

Russia is the largest country in the world with a mixed economy, diverse society and culture, and many geographical environments with the natural resources. Moscow, the capital, offers large opportunities for the foreign companies. The oil and gas industry is the most profitable sector: Russia is number one exporter of the natural gas in the world. The objective of this paper is to enhance the understanding of how Van Oord BV, a Dutch company in Russia operates and could operate in the present and the future oil and gas market. The company's main activities are dredging, offshore and marine engineering projects around the world. Van Oord BV is located in Russia with three offices. Russia has been an isolated economy for many years and nowadays, oil and gas industry is state owned and the domestic economy is largely dependent on energy resources. Moscow is the economic and political heart of the country and is a source of information linkages and intense personal business contacts. The major players in the oil and gas industry are located in the capital. There is also a large variety of major global market leaders and service construction companies, which increases the competition level. The state owned Gazprom, the three main east-to-west gas pipelines and planned pipelines projects are determining the Russian and European relationship. The European demand for energy is increasing and Yamal together with the Caspian region are going to play an important role in the future. Development of new fields will become more costly and remote areas are complicated to exploit. To become a leading economy and attractive for foreign companies, Russia needs to develop, diversify its economy, and implement user friendly access to the government's services.

The above mentioned issues challenge Van Oord BV to operate in Moscow. The strategy was to enter the market and use location specific factors of Moscow as well as the products it offers. A foreign company needs to organise legal entities, look for opportunities and deal with the political rules. Entering a market is the beginning of a process; maintaining the market position requires more effort. Organisation of labour policies and processes, doing business, negotiating with Russian partners and taking care of the bureaucratic procedures requires patience and management skills. Furthermore, the Headquarter is facing the European problem of aging people and a shortage of high skilled engineers and marine educated candidates. Considering all this described above, a Dutch marine construction company operating in Russia must implement a strategy, taking into account all the trends which can affect the performance.

Keywords: Van Oord BV, Russian legal entities, Russia, EU, MNE, the oil and gas industry, OLI paradigm, market entry strategies, PEST-trends, employment strategies

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1. INTRODUCTION AND OVERVIEW

This chapter is an introduction and an overview of this thesis. The topic of the thesis and the research background will be outlined. This chapter moves on with the case company and problem statement. Moreover, the terminology that was used throughout the research will be explained. Finally, the methodology will be discussed.

1.1 Introduction

Russia consists of a considerable regional variation and has the most diverse cultural differences within a country. This country occupies a territory of 17,100 thousand square kilometres, spinning 9 time zones from Kalingrad in the West to Kamchatka in the East, and is the largest state in the world. The Western part of the country is the economic heart of Russia and the location of the Russian capital city, Moscow. According to Agentschap NL (2010), Moscow is the most popular European city for (international) companies with expansion plans. This city offers large opportunities for the foreign companies, because of the increasing Gross Domestic Product (GDP) and the growing consumers spending in the last decade. For the foreign investors, oil and gas industry is the most profitable sector. There are many actors operating in this sector, for example, large oil and gas companies, service companies and also oil and gas constructors. One of these companies is the Dutch Van Oord BV. Van Oord is a marine contractor and rooted in the centuries-old maritime tradition of the Dutch. The main activities consist of dredging, offshore and marine engineering projects around the world. Over time, the company grew substantially and now they operate in over thirty-six countries worldwide. Besides Van Oord, there are several other companies operating in Moscow. For example, *Boskalis, Jan de Nul Group, Tideway, Dredging International* and the Italian company *Saipem*. The main focus of this thesis is on the Russian oil and gas industry and the future energy supply to Europe in relation with the construction service company.

For almost seventy years Russia was isolated from the rest of the world. The impacts of the Soviet planning were massive and the consequences of the transition recession of the 1990s after the collapse of the Soviet system are still visible. The concentrations of wealth are in the large cities, and there is little or no social safety net for those who cannot move to new centres of prosperity. Moreover, the Russian Economic report (2011) describes the economy as unstable, the political situations in some regions is unstable, the social dissatisfactions and the risen gap between the rich and the poor makes the future of this country unpredictable (CIA Factbook, 2011; AIV, 2008).

1.1.2 Source based economy

The Russian core economic activity is based on the oil and gas industry. According to Key World Energy Statistics (2010), world oil and gas consumption are respectively 41.6% and 15.6% of 8428 mtoe of total fuel shares. European Union takes about 35% oil and 24% natural gas into their account. Russia is ranked as third trade partner for European Union. The total export from Russia to Europe is €115.3 billion, from which oil is €52.740 and gas is about €13.044 million (Eurostat, 2010). The intensive trade relation between Europe and Russia is also shown on the map in appendix B, the oil and gas pipelines are spread all over the European area. The existing and planned oil and gas pipelines, which are used for transport of oil and gas produced by Russian large and small companies, are dominant. Russia is the largest

producer of natural gas and the biggest exporter in the world, and the majority of the importers consist of the largest European countries, like Germany, Italy and France. Russia is also the largest producer and the second-largest exporter of oil in the world. European Union may only import 25% of natural gas from Russia, but it constitutes 90% of Russia's gas exports (Paillard, 2010; The Zupt Newsletter, 2009; Key World Energy Statistics, 2010). This means that Russia is number one gas exporter and Europe is the biggest consumer.

Because of the dependency, the domestic economy and the Russian domestic income largely depends on the oil and gas price (AIV, 2008). There is a leading company, Gazprom, managed by the government, which is very important for the national economy. Gazprom is the dominant actor in Russian oil and gas industry and is the key supplier of gas to Europe (Sagen and Tsygankova, 2006).

After the 1980s, the Russian energy export increased. The gas trade between Russia and Europe had its ups and downs due to the political developments, such as breaking up the Soviet system. The collapse of the central economic planning in Soviet Union opened many opportunities for market seeking international corporations. Many foreign companies decided to open an office in Russia in order to improve their businesses and take advantage of face to face contacts.

1.1.3 Research goal

The objective of this paper is to enhance the understanding of how Van Oord BV, a Dutch company in Russia operates and could operate in the present and the future oil and gas market. Insights will be given on how the market approach can best be related to the characteristics of Russia.

It is not easy for a foreign company to find the right strategy to operate in Russia. The economic conditions, social environment, political climate and government regulations determine the effect of a market entry for a company like Van Oord BV. Considering the future developments in Russia, Van Oord BV has a challenge to choose a market approach for the following five to ten years.

1.1.4 Research questions

The following questions are formulated in order to discuss the topics mentioned above. The central research question will be divided in five sub questions. The central research question of this thesis is:

> "*How can Van Oord BV be positioned in the oil and gas industry, as a marine construction company, for the next five to ten years and what is the best market strategy given the characteristics of Russia?"*

This leads to the following sub questions:

1. What are the most important theories on market entry strategies?

2. Which PEST (political, economic, social, and technological) trends of Russia are relevant for a marine construction company, in the context of the oil and gas industry, for the next five to ten years?

3. How will the oil and gas industry in Russia most likely develop in the next five to ten years?

4. Given the relevant PEST-factors in Russia, which future strategies for employee recruitment would be most successful for Van Oord BV?

5. What are the best strategies for Van Oord BV to become a relevant actor in the Russian oil and gas industry in the next five to ten years?

1.1.5 Terminology

PEST- trends:
PEST stands for political, economic, social trends, and technological inventions (Hooley et al, 2008).

Oil and gas industry:
The petroleum industry includes the global processes of exploration, extraction, refining, transporting (often by oil tankers and pipelines), and marketing petroleum products. The largest volume products of the industry are fuel oil and gasoline (petrol) (Smeenk, 2010).

Area Russia:
Russia is a state in northern Eurasia. It is a federal semi-presidential republic, comprising 83 federal subjects. From northwest to southeast, Russia shares borders with Norway, Finland, Estonia, Latvia, Lithuania and Poland (both via Kaliningrad Oblast), Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, the People's Republic of China, Mongolia, and North Korea. It also has maritime borders with Japan by the Sea of Okhotsk, and the United States by the Bering Strait (CIA Factbook, 2011).

Area Europe:
For this research, the details of each European country are not relevant. Europe will be taken as a whole region and analysed in relation with Russian oil and gas industry.

Entry mode:
The broadest definitions offered by F.R. Root (1987, p.5) describes entry mode as an *"institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or another resources into a foreign country".*

Crude oil and natural gas:
The production rate of crude oil is expressed in Mbd, which means: millions of barrels per day and in million tonnes of oil equivalent *(Mtoe).* Natural gas production rate is expressed in bcm: billion cubic metres (Key World Energy Statistics, 2010).

CIS countries:
CIS stand for 'The commonwealth of Independent States' is a regional organization whose participating countries are former Soviet Republics, formed during the breakup of the Soviet Union. The participating countries are Belarus, Moldova, Ukraine, Georgia, Armenia, Azerbaijan, Uzbekistan, Kazakhstan, Turkmenistan, Kirgizia, and Tajikistan (CDE Russia, 2011).

1.2 Methodology

This paragraph will give an overview of the methodology, approach and data collection which is used for this thesis.

1.2.1 Research strategy and method

A researcher can chose to use a quantitative method or a qualitative method or a combination of both. For this thesis, a choice is made to use the qualitative method and the projection method. The latter method can be used as a tool during the interviews whereby the respondents are asked to share their knowledge and perceptions of other companies and markets.

To understand the context of the topic, a clear overview of the major themes concerning this thesis is necessary. To update the theme and to examine the real life, it is possible to come to more realistic and accurate conclusions in this study by using interviews. Interviews are held with different types of Dutch entrepreneurs and company managers, people from juridical and non-juridical institutions, and with a professor from the State University of Moscow in order to use their experiences and expertise in this thesis. Furthermore, both the theoretical and the practical parts of the thesis are discussed against the background of the case company Van Oord BV.

The geographical focus of this research is set on Russia and European Union. The details of each country in European Union are not relevant, because these countries do not fit into the scope of this research. Europe Union will be taken as a whole region and analysed in relation with the Russian oil and gas industry.

1.2.2 Research approach

In this study, the inductive approach is used by explaining a specific phenomenon with the help of an existing theory. The reason to use this type is because the theme of this thesis can be explained making use of existing theories combined with the results from the interviews. Recently, many researchers have investigated the market strategies of international companies in foreign countries (Anderson & Gatignon, 1986; Cantwell, 2009; Madhok, 1997; McCann & Mudambi, 2004; Nieminen, 2001). Considering the available time and the scope of this research, existing theories are used to analyse the target country and company.

1.2.3 Data collection

Two main categories of data are used: primary and secondary data. Primary data are collected for the interviews. Collecting secondary data was not difficult, since there is enough available information concerning the oil and gas industry and the economic aspects of these activities. In the beginning, a large amount of secondary data was read in order to become acquainted with the relevant industry. This was done by using books, going through articles and magazines, and searching the Internet. The material that was found made it possible to get a better insight and helped to provide an understanding of how the research question could be answered.

1.3 Overview of the report

In chapter two, the global oil and gas trends, an exploration of the involved actors, and their role in the oil and gas industry will be outlined. The geographic focus of Russia and Europe will be described. This chapter will end with the characteristics of Van Oord BV. In the third chapter, the trends will be outlined concerning the political, economic, social, and technological characteristics of Russia. A special attention will be on these characteristics in relation with oil and gas industry. In the fourth chapter, the entry strategies for service companies in the oil and gas market together with the relevant theories will be analysed. The role of the interviews is to use the so-called projection method, by using the expertise of companies already

located in Moscow to analyse the market prospects for Van Oord BV. In chapter five, information from these interviews will be used to describe the market entry experiences in Russia. The final chapter will be used to provide general conclusions and recommendations for van Oord BV.

2. THE OIL AND GAS INDUSTRIE: EUROPE AND RUSSIA

2.1 Introduction

This chapter will start with a short description of the global trends in the oil and gas industry. Furthermore, the characteristics of the oil and gas market will be described, concerning the Russian-European energy trade relation. The chapter then continues with a description of the actors in this industry and will end with describing the company profile of Van Oord BV.

2.2 Global Trends

2.2.1 Oil and gas industry

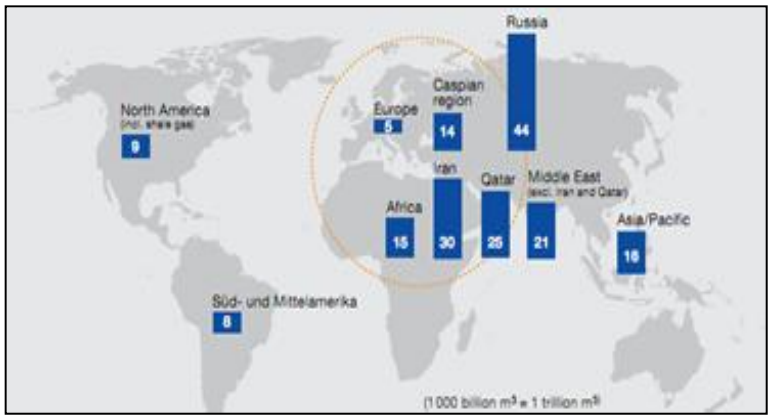
The oil and gas industry is an unpredictable, complex and unstable market. The developments of this market are determined through the demand and supply. This, in turn, is determined through the geopolitical relations and the involved actors (World Energy Outlook, 2010).

Natural gas and oil are important in the world economy. Nowadays, most industrialized societies are based on these natural resources, what makes it crucial to keep the stock in balance. The oil and gas industry can be classified into two main activities. The first consists of the upstream- products which are mainly about locating, developing and producing unprocessed oil and gas. The second activity is downstream and concerns tankers, oil pipelines, refineries, traders and consumers (Smeenk, 2010).

2.2.2 Recent oil and gas industry world statistics

In figure 2.1, the major natural gas reserves are shown in a world map for the year 2010. Worldwide, there is 3101 bcm gas (Appendix A, figure 6) available and Russia has a quarter of the world's total gas reserves. As we see in the map, Iran is the second largest owner of the natural gas reserves in the world. The United States owns a smaller share of gas comparing with Russia and Iran (Paillard, 2010).

Figure 2.1 Major Natural Gas reserves in 2010.



Source: Wintershall, 2011

Appendix A contains statistical information about world energy production, supply and consumption. Looking at the regional share in total energy supply (figure 1), OECD countries are responsible for the largest share, namely 44.2%. Considering the producers of crude oil (figure 4), the Russian Federation takes the first place.

Saudi Arabia is the largest net exporter and the United States the largest net importer of crude oil (see figure 5). The natural gas production (figure 6) shows a quite different picture. The Russian Federation is the second largest producer, after the United States, and the major net exporter of natural gas. Japan is the main net importer of natural gas (see figure 7). In figure 8 and 9 in Appendix A, oil and gas export and the energy mix of the major economies are presented. Figure 7 shows that Russia dominates in gas as well as in the energy mix. In Figure 8 is demonstrated that the Middle East exports the largest part of oil and that Russia together with CIS (Appendix H) countries is responsible for the largest part of gas transport.

2.2.3 Scenarios in oil and gas industry

Each year, the International Energy Agency releases a World Energy Outlook report to advise the member countries on energy policy. The last report, released in 2010, describes the outcome that will shape the future of energy in the long term. Recurring subjects are the improvements in policymaking and negotiations between the countries by implementing their strategies against the changing climate and reform in oil and gas stock worldwide. The World Energy Outlook also describes the essence of more active governmental policy. In the scenarios, the global demand for fossil fuel will increase, the price will still be dependent on the world politics, and the rising prices to end users, which are the result of the upward pressure on the international market, will still play a major role. The government must control these developments in the future.

World primary energy demand will increase by 36% between 2008 and 2035, from around 12300 million tonnes of oil equivalent (Mtoe) to over 16700 Mtoe, or 1.2 %, on average per year. Fossil fuels, like oil and gas, remain the dominant energy sources in 2035 and oil remains the dominant fuel in the primary energy mix. Non-OECD countries account for 93% of the increase in world primary energy demand in the scenarios. China will contribute 36% to the projected growth in global energy use by raising their demand by 75% between 2008 and 2035. After 2035, China's demand will account for 22% of the world demand. India is the second largest contributor of the rising global demand, and accounts for 18% of the rise. Outside of Asia, the Middle East will experience the fastest rate of increase, by 2% per year. The World Energy Outlook report describes that by 2035, the United States will still be the world's second largest energy consumer behind China and well ahead of India (World Energy Outlook, 2010; Paillard, 2010).

The total Organization of the Petroleum Exporting Countries (OPEC) production will continue to rise, until 2035. Iraq accounts for a large share in the increase and its crude oil output will be catching up with Iran by around 2015 by reaching the total output of 7 mbd (millions of barrels per day). Russia loses its place to Saudi Arabia as the world's biggest oil producer and will have raised the output by 9.6 mbd in 2009 to 14.6 mbd by 2035. Japan, China and the United States are still emerging markets for Russia, but it remains unknown if these countries will play an important role for the Russian energy production in twenty years (Paillard, 2010).The increasing OPEC production contributes to the dominance of national oil companies. As a group, they account for all of the increase of the global production between 2009 and 2035.

World gas reserves are sufficient, for at least sixty years of consumption. The reserves are concentrated in a few countries, such as Iran, Qatar, and Russia. If Russia will maintain the leading place on the gas market, Gazprom and the government must agree to invest in key infrastructure and gas fields (Paillard, 2010; World Energy

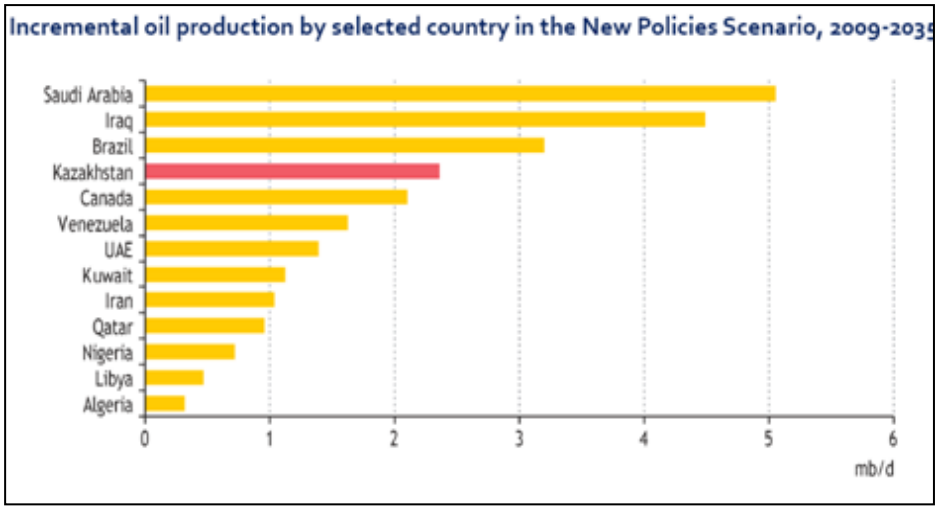
Outlook, 2010). The government must participate in the future explorations by supporting in financial, technological and organisational aspects. Support and investments are also needed to create awareness of exhaustion of resources, for example by increasing the domestic gas and oil price.

2.2.4 Caspian Sea region

The World Energy Outlook (2010) report also spent attention on the new opportunities, in the Caspian Sea, landlocked between Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan. The report claims that this region has the potential to make a significant contribution to ensuring energy security in the rest of the world, by increasing diversity in the oil and gas supplies to Europe (see figure 2.2). The Caspian Region is not only important because of its value to Russia in controlling new pipelines, but also the necessity to keep the Southern Corridor open to bring Iranian, Azeri, and Turkmen gas to Europe over the next twenty years (Paillard, 2010).

The Caspian region contains both oil and natural gas. Developing this region is a complex process because of financing the construction of transportation infrastructure by passing through several countries. This region ensures an increase of the oil production in the first 15 years according to the scenarios, by 2.9 mbd in 2009 to a peak of around 5.4 mbd between 2025 and 2030. This growth will be caused by Kazakhstan, being the fourth by 2035 in world's energy output in terms of volume after Saudi Arabia, Iraq, and Brazil. Caspian gas production is also projected to expand, Turkmenistan and to a lesser extent Azerbaijan and Kazakhstan drive this expansion. The rapid growth will reach nearly 100 bcm in 2020 and 130 bcm in 2035. The Caspian region has the potential to supply a significant part of the gas needs of Europe and China. The Caspian region is seen as the Gazprom's South Stream rival in claiming the largest part of EU energy suppliers. Russia aims to acquire more influence in EU by providing gas through the Black sea and the Balkans, although the construction activities have not started yet (World Energy Outlook, 2010).

Figure 2.2 Caspian energy could enhance global energy security



Source: Key World Energy Statistics, 2010

2.3 Geographical focus

The presence of the oil and gas divides the world into resource energy rich and poor countries. For example, Russia has many natural resources, including the natural gas and oil. Most European countries have their own gas fields, but it is not sufficient

for the growing national demand. This means that most European countries are dependent on the Russia gas supply (Smeenk, 2010).

2.3.1 Russia

National focus

Russia occupies a territory of 17,098 thousand square kilometres, 2.2 % of the entire world, spanning 9 time zones from Kalingrad in the West to Kamchatka in the East, and is the largest state in the world territorially. With a population of 141,945 million people, Russia takes the 9th place on the world comparisons country list.

The Russian Federation emerged in the 12th century after 200 years of Mongolian domination. During the Romanov Dynasty, in the late 17th century, Russia was able to expand its influence all across the Siberia and the Pacific. More territorial acquisitions are made during the 19th century in Europe and Asia. After the war against Japan and the revolution in 1905, the formation of a parliament was a fact. After the Russian Empire was defeated in the First World War and the overthrow of the imperial household during the revolution in 1917, the communists Lenin and Stalin seized power. The economy and society stagnated dramatically and that is why Michail Gorbatsjov introduced *glasnost* (opennes) and *perestroika* (restructuring) in order to modernize communism. He used these words for the renovation of the Soviet body politic and society (Soviet History, 2011). However, his intentions resulted in splintering the USSR into Russia and 14 independent republics. Since then, politics has shifted slowly to demarcation ambitions and carefully managing national elections (World Fact book, 2011; SPIEF Knowledge platform, 2011).

Nowadays, the Russian Federation is divided into eight Federal Districts (see figure 2.3) created by Vladimir Putin in 2000. These are the administration levels of the federal government of Russian Federation. Each district includes several federal subjects and each federal district has a presidential envoy, which are responsible for the compliance of the federal subjects with the federal law (World Fact book, 2011).

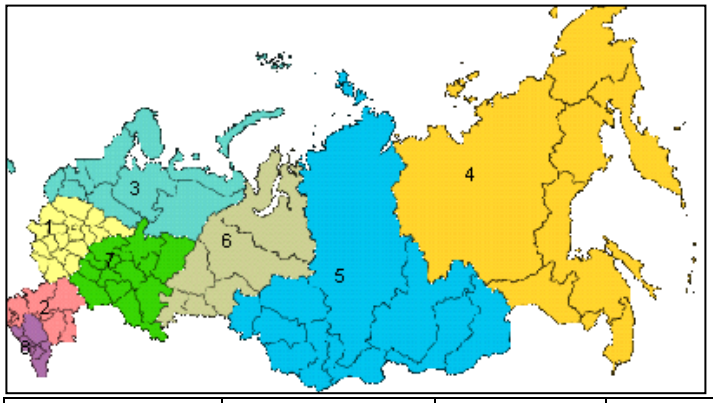
Regional focus

The Moscow region is located in the eastern part of the Russia, Central Federal District and in central economic region (see figure 2.4). This part of the country plays an important role in the infrastructure of most pipelines. The Moscow region is also where the processing of oil products and of the natural gas takes place, and where the automobile industry is located. This federal district is has the best railways and automobile infrastructure (Primworov and Bushnev, 2010).

Local focus

With a population of 10.523 million people, Moscow is the capital of the Russian Federation. Moscow is located in the western area within the most populated part of the country and an industrial and governmental centre (World Fact book, 2011). This city has the best infrastructure in the country comparing with the rest of Russia. National-international business centres and propitiation of joint ventures between local and Western capitalists are no more an exception. Moscow became an urban leader of the post-communist economic transition in the former Soviet Union (Kolossov et al., 2002).

Figure 2.3 List of federal districts



Number	Name Federal District	Area (km2)	Population	Federal subjects
1	Central	652,800	38,438,600	18
2	Southern	418,500	13,856,700	6
3	North-western	1,677,900	13,583,800	11
4	Far Eastern	6,215,900	6,291,900	9
5	Siberian Federal	5,114,800	19,254,300	12
6	Urals	1,788,900	12,082,700	6
7	Volga	1,038,000	29,900,400	14
8	North Caucasian	170,700	9,496,800	7

Source: wikipedia.org, 2010, own revision

2.3.2. Europe

This research also focuses on Europe, in particular on the European Union. Most of the oil and gas pipelines run through central Europe, and end in Western Europe (see figure 2.6).

This area occupies a territory of 10,180,000 square kilometres and has a population of 501,103,425 inhabitants (EUROSTAT, 2010). The cultural richness and historical developments together with the two devastating World Wars in the first half of the 20th century have shaped Europe. After the wars, the only way to establish peace was to unite two chief nations, Germany and France. In 1950, the first step towards an integration of coal and steel was a step toward a Europe Union. In 1951, the European Coal and Steel Community (ECSC) was established with six members. After a couple of decades, many negotiations to create an even closer union, eventually lead to more participating countries, and a new currency in 2002. In 2007 the European Union accounted for 27 of the 50 countries in Europe (CIA World Factbook, 2011).

Regional focus

To be able to investigate the European and Russian relation in the context of the oil and gas industry, the focus must be set on the European Union as a trade partner of Russia. Many pipelines originate from the Yamal and Stockman fields, in the far North of Russia. Pipelines from Asia which are connected with Russian

pipelines end in Central Europe and use the former Soviet Union countries as a transit between Russia and Europe (Smeenk, 2010; The Economist, 2010).

2.4 Oil and natural gas for Europe

Russia is the third most important partner to the EU, after the U.S and China. In the list of the major export partners, Russia is the fourth most important export partner, and the third most important trade partner in the world (European Commission report, 2011; EUROSTAT 2010). The EU is the most important import, export and trade partner to Russia. So besides being an important trade partner to the EU, these statistics prove that Russia is important to the world economy.

2.4.1 History of the resources

In 1907, British Shell and Royal Dutch merged to form Royal Dutch Shell. In 1908, oil was discovered in Persia and Angola Persian Oil Company was formed, which became known as BP. Between 1930-1950, oil was discovered in Bahrain, Kuwait and Saudi Arabia. During the Second World War, oil played an important role in events and the outcomes of the alliances. In 1943, Tatneft's Romashkinskoye oilfield was the first Russian mega field discovered (Oil and Gas Eurasia, 2008). Natural gas trade started with the realisation of the 843 kilometres long gas pipeline Saratov- Moscow. In 1975, North Sea oil production started and the national gas industry opened in 1996 in Siberia. In 1984, USSR was the world's biggest gas producer by far, producing 587 bcm of gas per year. Between 1970- 1980, the Urengoy- Uzhgorod pipeline was built as well as a transcontinental 20.000 kilometres long gas pipeline from West Siberia to Western Europe.

Between 2000 and 2010, the Russian oil and gas industry grow significantly and the biggest Russian oil companies, Rosneft and Gazprom began on their way to the top. In 2005, the first export of natural gas to the United Kingdom took place. In 2006, Russia increased protection of the energy resources by increasing the pressure on multi-national oil companies, such as Exxon and Shell. Russia gained more control over energy resource industry. In 2008, Kremlin remitted a part of Iraq's debt and in exchange, Russian LUKoil received access to some of the country's oil and gas deposits. Remitting debts and arms deals have been the Kremlin's instrument to make deals in Middle East and North Africa (The Zupt Newsletter, 2009; Wintershall, 2005).

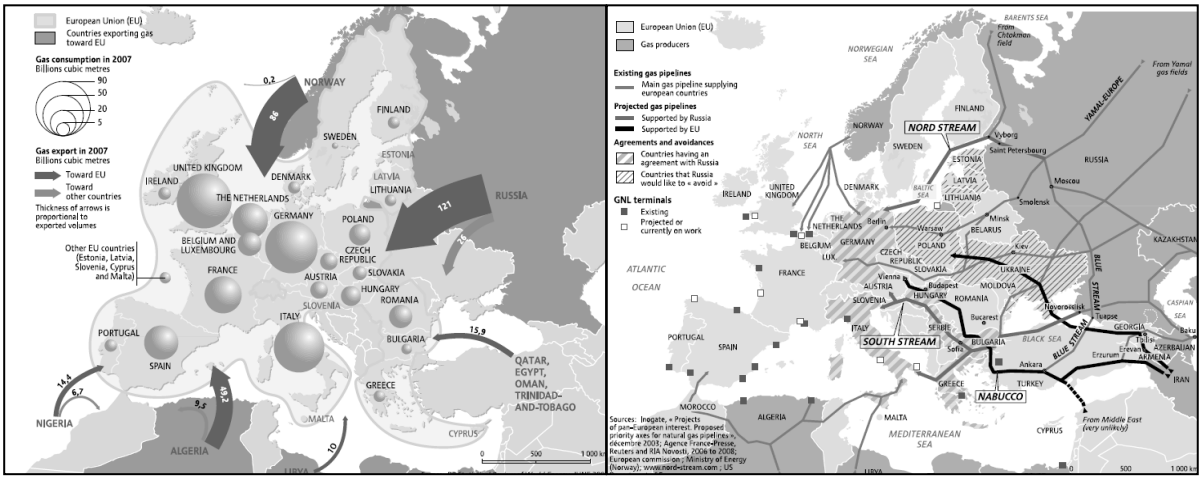
2.4.2 Gas distribution to Europe

To understand the complex energy relationship between Europe and Russia, one must first understand Gazprom, the three main east-west gas pipeline projects and the Russian oil and gas industry. Gazprom State Gas Concern was established in 1989 on the roots of the USSR Industry Ministry. In 1988, Gazprom was renewed and called Gazprom Open Joint Stock Company, with the state as the major controlling actor with a 50,002% of shares. Gazprom can join the list of the world's largest energy companies. To ensure the strong position of the Kremlin, Gazprom received permission from Putin in 2004 to take over Rosneft, an oil and gas company. This consolidates the state's control over the energy sector. The new so called Gazprom Group is responsible for 17% of the global gas production. In 2008, the Group produced 549.7 bcm of gas and sold 184.4 bcm of gas to European countries (Gazprom, 2011; Energy Bulletin, 2004).

The future of European gas markets depends on the three gas pipeline projects: two supported by Russia (Nord Stream and South Stream) and one by Europe and

Turkey (Nabucco), which brings Caucasian gas to Europe (The Economist, 2010; Paillard, 2010). According to Gazprom, Germany and European Union members will have few alternatives to Russian gas. The state owned natural resource sector is planning to develop a third branch in the Nord Stream to enhance the Russian dominant position as the major player on the European gas market. Van Oord BV has already participated in the earlier Nord Stream projects in 2009. The two Nord Stream developed pipelines will be ready in October 2011 and October 2012.

Figure 2.4 Gas Pipeline projects in Europe



Source: Paillard, 2010

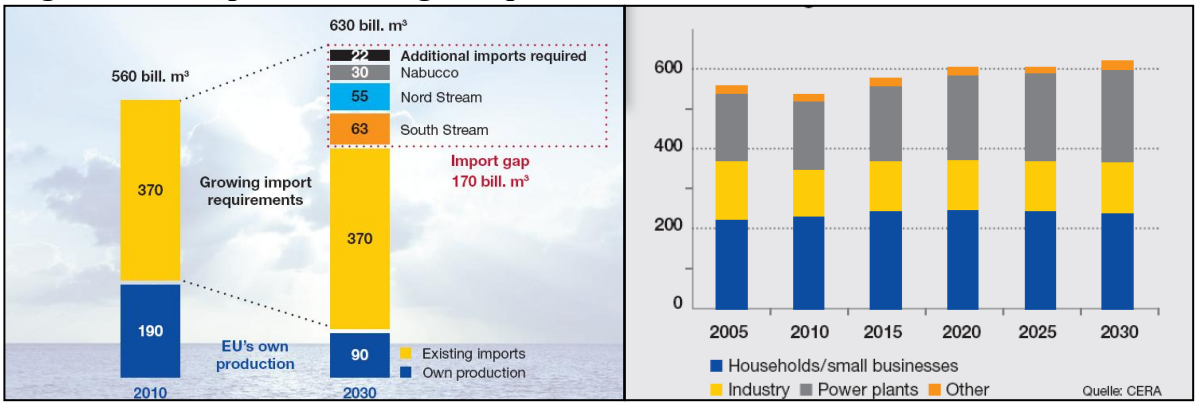
There are also plans to build White Stream, a pipeline across the Black Sea. Southern Corridor and White Stream are supported by the EU Commission because they meet the EU goals for diversification of energy supply routes (Kuchins, 2008). Moscow's position in the Nord Stream project is to increase European energy security by connecting Russia with Western Europe (News Base Issue 642 and Issue 641, 2011).

The right- hand figure (see figure 2.4) shows the Russian gas supply to Europe. This figure also shows the three major consumers: Germany, Italy, and the United Kingdom. The largest gas consumers in Europe are now Germany, Italy and France, together 197 bcm of gas (Key World Energy Statistics, 2010). The left figure presents the three main gas pipeline projects. The South Stream is a project to create a new transport path for Russian gas through the Black Sea to Bulgaria, Italy, Hungary, and Austria. The earliest deliver time of the line is in 2015, and will provide a reliable supply for customers in the south and the south east of Europe. This project consists of four parallel pipelines of 940 kilometres each on the bottom of the Black Sea from Russia to Bulgaria and Romania through Caspian Sea and central Asia. Onshore, the gas will be distributed through Italy and Austria. This project has three goals: to increase capacities in Russia towards the Black Sea, to construct four parallel gas pipelines with a planned capacity of 63 billion cubic meters per year, and to extend the pipeline to south and central Europe. The founding partners are the Russian Gazprom and the Italian ENI but there are also plans for a French company to join this project. Many commentators see South Stream as a rival to Nabucco (Bentley, 2011).

European demand for natural gas will increase (shown in figure 2.5). The natural gas suppliers to European are Russia, Norway and North Africa. According to this figure, the European Union's own gas production will fall from and the demand

will increase. Additional imports, Nabucco, North and South Stream must take the import gap into their account.

Figure 2.5 European Union's gas requirements and demand trends



Source: Winstershall press release, 2011

Besides South Stream, there are two other major gas pipelines in process in Europe, namely Nabucco and Nord Stream. Nord Stream is an offshore pipeline through the Baltic Sea. This project is planned to run from Northerm Europe (Karelia) to Greifswald in Germany. The plan is to build two pipes to deliver 27.5 billion cubic meters (bcm) per year. Nord Stream is managed by two German energy companies, BASF and E.ON, each take 20% of the shares; a Dutch gas company, Nederlandse Gasunie NV, takes a 9% share, and the Russian Gazprom the remaining 21% (Wintershall, 2011; Paillard, 2010).

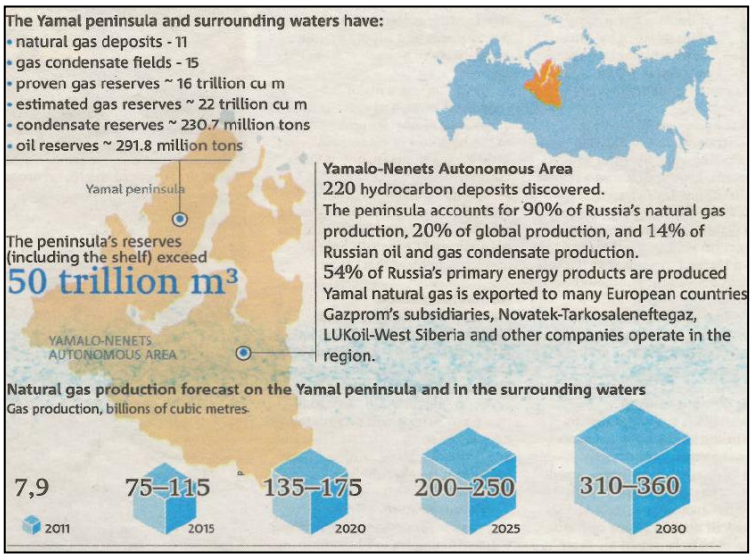
The third project, Nabucco, must create an opportunity to retrieve gas from the Caucasus and beyond. The participating companies are from Austria, Hungary, Bulgaria, Romania, Turkey, and Germany. This pipeline must secure between 10 and 18 bcm of natural gas per year. This project had some investment problems. The options for gas supply sources can be Turkmenistan, because it has relations with Azerbaijan, and there are opportunities to build an onshore pipeline gas field to the Caspian coast (The Economist, 2010). Europe is playing a role in this project because together with the pipeline Turkey-Grease-Italy (ITGI), Nabucco must guarantee natural gas suppliers from Azerbaijan by reducing its independency and exclude Russian. In 2011, the European Union made a deal with Azerbaijan on the supply of natural gas to the EU from Caucasus, including Nabucco. Azerbaijan committed this under condition to receive market access (Paillard, 2010).

2.4.4 The future of European energy supply

Yamal area, shown in figure 2.6, is also called 'the Russian's gas storehouse'. The Yamal- Nennets Autonomous Area is the world's largest natural gas producing region and has many gas reserves. There are 291.8 million tons of oil reserves and this region accounts for 90% of Russian gas production, and 20% of global production. Yamal's natural gas has been exported to many European countries, and the operating companies are Gazprom, Novatek- Terkosaleneftegaz, LUKoil-West Siberia and some others (Gay, 2011). According to many experts, this area should secure the European gas supply and the economic stability in Russia for a long time. European production of oil and gas has already started to decrease in the North Sea and this situation will eventually make Europe dependent on Russian gas. The European

Union may only import 25% of natural gas from Russia; it constitutes 90% of Russia's gas exports.

Figure 2.6 Yamal, the gas storehouse



Source: Gay, The Moscow News, 2011

For the next twenty years, Europe and Russia will still need each other. Russia cannot afford all future oil and gas field investments. The European relationship with Russia is shaped by the following facts. First, energy is the most important economic sector in Russia. Second, Europe is an inevitable partner for Russian energy companies, because Russia needs foreign investments for new field's developments. Finally, oil and gas is part of game of lies and fear between the Russians and Europeans because of the influence of this industry on the political relations. To maintain the insurance in this game, Europe must keep its technological and innovative advantage (Paillard, 2010; News Base Issue 633; Kovalev, 2011).

2.5 Actors in the oil and gas industry

2.5.1 Introduction

The oil and gas industry is a worldwide economic activity. The countries which are described above play an important role in this market. There is a large variety of actors involved, for example the government and business to business companies. In this section, a general description will be given of the major global market leaders and service construction companies.

2.5.2 Oil and gas multinationals

The Forbes Global 2000 is a list released by Forbes (2010), an American business magazine that rates the world's top 2000 publicly traded global companies. The companies are judged under four different criteria: sales, profit, assets, and market value. The world's ten largest oil and gas companies (Arabian Oil & Gas Staff, 2009) are listed below:

1. Royal Dutch Shell (Netherlands)
2. Exxon Mobil (United States)
3. BP (United Kingdom)

4. Chevron (United States)
5. Total (France)
6. Gazprom (Russia)
7. PetroChina (China)
8. ENI (Italy)
9. Petrobras-PetróleoBrazil (Brazil)
10. Sinopec-China Petroleum (China)

The six largest international companies are responsible for around 3% of the world's total output. Exxon Mobil's oil account, for example, for less than 1% of the world's total.

2.5.3 Oil and gas service companies

The oil and gas companies operate with many service companies. It has been argued that the most difficult job in this industry is oilfield services. Most oilfields tend to be located in geographically remote areas which require special logistics to extract, process and transfer crude oil or gas. The top 10 world's largest oilfield services companies are selected on a company's revenues for 2008 (Arabian Oil & Gas Staff, 2009).

1. Schlumberger Limited (Dutch Antilles)
2. Halliburton (United States)
3. Saipem (Italy)
4. Transocean Ltd. (United States)
5. Baker Hughes (United States)
6. Fluor (United States)
7. Weatherford International (United States)
8. BJ Services Company (United States)
9. Petrofac (United Kingdom)
10. China Oilfield Services Ltd. (China)

2.5.4 Oil and gas constructors

Operating in the oil and gas industry is extremely difficult and takes a great deal of commitment and expertise. It requires a big amount of planning which takes place long before operating in the particular area starts, like engineering and design, tendering, and building the offshore facilities. These are the activities of the constructors. The top ten of the largest oil and gas constructors (Arabian Oil & Gas Staff, 2009) are based on the last financial year's revenues:

1. Bechtel (USA)
2. Technip (France)
3. Aker Solutions (Norway)
4. Chiyoda Corporation (Japan)
5. SNC-Lavalin Group (Canada)
6. J. Ray McDermott (USA)
7. JGC Corporation (Japan)
8. Hyundai Heavy Industries (South Korea)
9. Foster Wheeler (USA)
10. Daelim Industrial Company (South Korea)

2.5.5 Government

The above described major players in the oil and gas industry may give an insight in this enormous industry. Besides the major oil and gas companies, service and constructors companies, the government plays an important role in this industry. The government policies and legislative developments can have impacts in crucial phases of resource developments, namely during the preparation of all the legal administrative aspects and exploration of oil (Moe and Kryukov, 2010). For a long time, exploration of the resources was not a priority at the highest political level and the government had limited itself to own a resource- management policy. The resource policy was driven by the pursuit of its own interests. After the dismantling of Russian central planning, the government introduced a new system of taxation to stop the profit maximization of the oil and gas companies. Since 2005, oil companies and the government started to re-assess their strategies and allocate more funds for geological exploration. The World Energy Outlook (2010) explains that the increase in global demand for fossil fuel, the fact that the price will still be dependent on world politics, and the rising prices to end users; which is the result of the upward pressure on the international market; will continue to play a role. The government must corporate with the major oil and gas companies to manage these developments and retain a stable market.

2.6 Van Oord BV

2.6.1 History

Van Oord was established in 1868 by Govert van Oord. The company evolved out of three large dredging companies. These are Van Oord ACZ, a successful family-owned company, HAM (Hollandsche Aanneming Maatschappij), and Ballast Nedam Baggeren. In 2001, Ballas Nedam merged with HAM, which led to a new company called Ballast Ham Dredging. After two years, the fused companies decided to merge with Van Oord ACZ. About 78% of the shares were occupied by Merwe Oord.

Van Oord dredging and marine contracting is a private company, providing work for over four and a half thousand employees. They have worked as a marine contractor on dredging and marine projects for over a century. This company consists of thirty six branches worldwide. There is a branch in Africa, eight in Asia, two in Australia, twenty in Europe, four in America, and one in the Middle East. The head office is in Rotterdam and the offshore office is located in Gorinchem, both in the Netherlands. The projects differ in size, type, host country and complexity. With a net profit of 165.52 million in 2010, this company can join the list of the important international companies (Annual Report, 2011).

2.6.2 Business activities

Dredging is the core activity of the company and Van Oord BV is one of the leaders in dredging worldwide. Offshore, the second type of activity is a complex work field of the oil and gas industry. Van Oord works with many oil and gas operators, national oil companies, offshore installation vessel owners, consultants and other private clients all over the world. In order to protect the offshore pipelines, they carry out subsea rock installation activities. The third activity is marine engineering, for example the Palm Islands project in Dubai. In offshore wind energy, the fourth type of activity, Van Oord BV tries to play an important role in the worldwide market to contribute to CO2 emission reduction goals. Activities like this include cable installation, burial and protection by rock installation and seabed preparation. The

fifth activity consists of soil improvements by providing soil consolidation and soil stabilisation. The last activity concerns the land infrastructure. This is mainly performed in the Netherlands and the expertise includes sand supplying, gravel and constructing earth tracks (Van Oord company site, 2011).

2.6.3 Van Oord in Russia

In Russia, Van Oord BV offices are located in Saint Petersburg, Moscow, and Sakhalin. In Saint Petersburg, the government is the main client. This office focuses on the commercial side of the projects and is in charge of carrying out activities for Van Oord BV Dredging and Marine Contractors. The area office in Moscow opened one year ago and the office concentrates on the oil and gas industry. The main activities are negotiations and project support. The major and potential clients of Van Oord offshore BV are located in Moscow. Sakhalin is a project office for the Van Oord offshore project in the Far East of Russia. The office in Sakhalin supports the area offshore in Moscow (Intranet, Van Oord, 2011).

In order to understand the strategy of Van Oord BV, a description of the term o*ffshore* is needed. According to Grossman et al (2005), offshoring is a popular outsourcing where the tasks formerly undertaken in one country are now being performed abroad. In other words, offshoring includes foreign sourcing from unrelated suppliers and also migration of activities, conducted by an international firm. Offshore outsourcing has changed the economy performances today and literally, it means outsourcing of an activity to another place. Van Oord BV decided to go offshore to reduce the distance between the provider and the receiver of the offered services. This second type of activity is complex field work consisting of the oil and gas industry. Opening an office in Moscow was a decision for improving the operations abroad. The major players in the oil and gas industry and other constructors companies are located in Moscow. The availability of intense personal business contacts is high, which is very important for an internationally orientated company to build a network abroad (Kolossov; O'Loughlin, 2004). In order to understand the organisational structure of the offices in Russia in relation with the home land of the company, an organisational chart is showed in appendix E.

2.6.4 Informational city

After being isolated for 75 years, Moscow is now taking part in the capitalist world economy and has slowly started to earn the status of one of the world centre. This status attracted many foreign companies. In order to proof that Moscow is an important city, the key elements of the Informational City and Moscow as a city need to be outlined.

In 1960, the first investigation of world cities was done by Peter Hall. Back then, he identified eight places as metropolises of economic and political power and Moscow was on the list. But, the central argument is from Manuel Castells (1989), he described it as follows:

"In an Informational city, priority is assigned to the tertiary and quaternary sectors of the economy, the city becomes not so much a space of residence, production, and consumption, but one of decision- making, financial activity, research, and high education."

Manuel Castells is stating that an Informational city is a place full of information and intense personal business contacts. This city is also a control centre of new

information in a globalized economy and society. Considering this, Castells identified four key elements in the concept of an Informational city.

- International, national, regional, and non- government organizations, which are authorized to make political, diplomatic, economic, and military decisions.
- There is a broad range of direct contacts among different organizations through providing the right infrastructure and transport.
- There is a high level of communication, transport and information with other global cities.
- There is a structure and there are institutions to organize the process for business development and business facilities and a producers- service sector like banking, real estate and accounting (Kolossov et al., 2002)

The above described characteristics of Moscow fit into the concept of the Informational city. The capital of Russia is full of information linkages and intense personal business contacts which are very important for an international orientated company (McCann, 2010). Moscow is also a control centre of new information and the economic heart of the country. This city is strategically located at different international transport corridors, which make this city an important transport hub. Russian research centres are located in Moscow (Agentschap NL, 2010). Furthermore, Moscow fits into a subset of East European cities. The high levels of banking and accountancy reveal the Western-type capitalism developments in the post-Communist society. There is a high concentration of international firm offices representing different economic sectors, and there is a broad range of direct contacts among them.

There infrastructure and transport can be further improved, especially in the surroundings of the large cities, such as in Saint Petersburg and in the in the eastern part of the country. The business facilities, banking, and real estate are developed but can be expanded much further (Kolossov and O'Loughlin, 2004). Moscow is also highly connected with other large players in the world economy, such as the European Union and Asia. The last decade, Moscow is trying hard to integrate into the world economy (Kolossov et al., 2002). Many foreign services companies, like Van Oord BV, have opened their representative offices (RO) in Moscow; this sector provides 30-40% of national employment. It is also an important centre of advisory and project-based activities. Moreover, the is an interesting fact that this city emerged on the world market only a decade ago and already has a high level of the global business services firms' activity (Kolossov; O'Loughlin, 2004; SPIEF Facts Figures, 2011).

2.7 General overview

Chapter two described the global trends in the oil and gas industry, the characteristics of the current oil and gas trade between Russia and Europe, the main actors in this industry, and ended up with the description of Van Oord BV company profile. This paragraph will provide an overview of the main findings.

1. *The oil and gas market is an unpredictable, complex and unstable market.*

The developments of this market are determined through the demand and supply. This relation is determined through the many involved actors and the geopolitical relations

2. *The Moscow region plays an important role in the oil and gas industry.*

Van Oord BV decided to go offshore to reduce the distance between the provider and the receiver of the offered services. The major players in the oil and gas industry and the potential clients are located in Moscow.

3. *Energy is an important security concern in Russia.*

Russia has a quarter of the world's total gas reserves. The nation has large reserves, allowing it to supply its consumers and themselves with relatively cheap energy. The economic developments are tightly related to the resource industry. This makes the national economics one-sided and vulnerable. The government will continue to play an important role in the future oil and gas policy.

4. *Moscow can be characterized as an Informational city.*

The Moscow region is located in the eastern part of the Russian Federation, Central Federal District and in central economic region. The city is full of information linkages and intensive personal business contacts. Moscow is also increasingly important as an economic and business centre; it has become Russia's principal magnet for foreign investment and business presence.

5. *Resource management is determining the Russian- European relationship.*

Gazprom, the three main east-west gas pipeline projects and the Russian oil and gas industry shape the relation between Europe and Russia. The future of European gas markets depends on the three gas pipeline projects: two supported by Russia (Nord Stream and South Stream) and one by Europe and Turkey (Nabucco).

6. *European gas demand will increase and needs to be secured.*

The Caspian region and the Yamal- Nennets Autonomous Area has many gas reserves. The both resource regions have the potential to supply a significant part of the European gas needs. In the future, Russia will not manage to finance all the future oil field developments. So for the next twenty years, Europe and Russia will still need each other.

3. TRENDS IN RUSSIA

3.1 Introduction

Changes in the environments of a company can be analysed by using PEST-trends. PEST stands for political, economic, social (including legal en cultural), and technological environments. These trends can affect a multinational enterprise (MNE) and vice versa. The extent of impact depends on the kind of MNE and its entry strategies. Since Van Oord BV operates in a foreign country, it needs to manage PEST-trends, control them, and anticipate when needed.

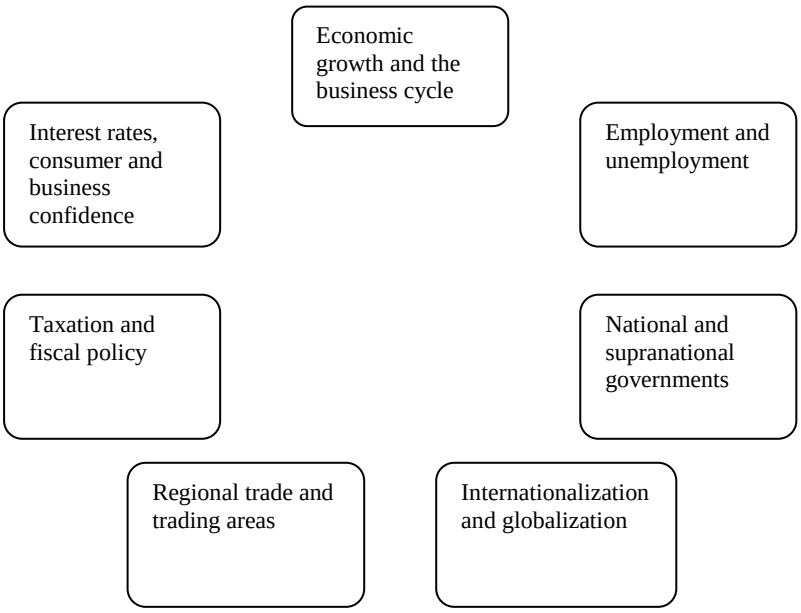
The reason why economy, geography, and politics are taken together is because they are closely linked. Economic activities depend on the geography of a place and can be established because of several advantages above other places, due to specific geographical aspects. A good example of the economic activities accruing because of a specific geography is the Dutch harbour in Rotterdam. Politics either makes economic developments possible or creates barriers for the economic climate, and politics has to take geography into account during the decision and policy making (McCann, 2010).

3.2 Economical and political environment

3.2.1 Economical and political trends

The figure below (figure 3.1) shows a number of considerations that firms need to take into account when assessing the political and economic environment in which they operate (Hooley et al., 2008).

Figure 3.1 The economic and political variables



Source: Hooley et al, 2008

Looking closer at figure 3.1, internationalisation and globalisation concerns the continued separation of North-South between the rich and the poor nations. Furthermore, it has to do with the developed and the less developed countries, and the

division of raw materials, and the power of this raw material countries have over western, developed economies. For example, during the 1990s, large changes in East-West relationships occurred. The dismantling of the Berlin Wall, the liberalization of the economies of Central Europe and the break-up of the Soviet Union showed many potential changes in trading patterns.

3.2.2 Russian political and economic environment

After the collapse of the Soviet Union, Russia changed from a globally isolated, central planned economy to a more market based and global integrated economy. During that time, most industries were privatized, except for energy, defence-related sectors and state interfaced in major parts of the economy. In table 3.1, Russian key indicators are described (CIA Factbook, 2011).

Table 3.1 Key country indicators

Politics

Country	Russia
Political System	Federation
President	Dmitri Medvedev

Geography

Surface	17.098.200 km2 (410x NL)
Capital	Moscow
Density of the population (1-01-2010)	8.3 people per km2

Population

Population	141.945 million (2010)
Population growth	- 0.47%
Language	Russian and many minority languages
Religion	80% Russian orthodox, 15-20% Muslim

Economic indicators

GDP Billion of Euros	1,114 (2009)
GDP per capita Euros	7.936,8(2009)
Real GDP growth %	4.0 (2010)
Labour force	76 million
Export- to-GDP ratio	22.9%
Import- to-GDP ratio	12.9%
Monetary unit	Rouble = 100 kopeken, exchange rate 1 EUR = 40.7436

Source: Obtained at the website of Agentschap NL, 2009; World Bank Developing Indicators, 2010; CIA World Factbook, 2010.

3.2.3 History of the Soviet Union and central planning

In order to understand the politics and economy nowadays, a description of the Soviet Union and central planning is needed. The Soviet Union central planning was characterized by incorrect distribution of the existing production resources. The inaccurate locations were used for the production process. The rules of the Soviet Union were different than those of the free market capitalism, which resulted in a very specific economy and settlement pattern. According to Michael Bradshaw (2008), the Soviet Union was planned and developed by the industrial sector and not by republic or region. The Ministries in Moscow were organized as a separate ministry for each major industry. The government developed the Five Year Plans to guide the economic developments that were implemented by industry. There was little attention paid to the consequences for the republics or regions. The plans were poorly coordinated between the ministries and each of them pursued their own interests. This policy resulted in large industrial towns with several single industries and each ministry building its own city. There was also little attention regarding the costs in a market sense of locating in a particularly region. The federal subjects (see figure 2.4) at that time had limited influence on what was happening in their region. Power and control had resided with the Party and Ministerial structures in Moscow. After the communist party was gone, the new federal government was not adequate and the national economy was fragmentised. At the end of the 20th century, raw materials became very important in the Russian economy. In that period, Russian economy showed high rates of growth. Large parts of the resource sector were organized as oligarch ownerships. The resource orientation favoured the state owned enterprises and depressed the development of small and medium sized enterprises. The reliance on the resource sector showed the devastating power of the crises in 1998. After a recovery, due to high oil and gas prices, new sectors of economic activity tried to emerge to support the growing market economy, such as telecommunication, financial services, and real estate. These sectors were under-represented during the Soviet period (Bradshaw, 2008; Moe & Kryukov, 2010).

3.2.4 Recent economic situation

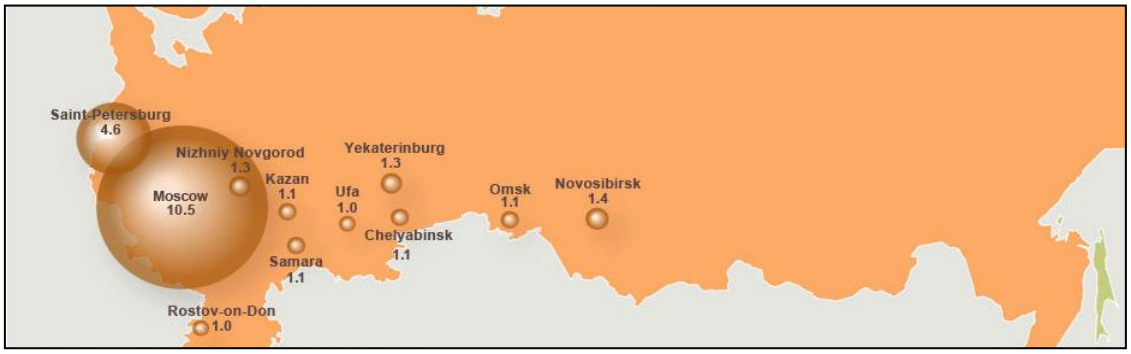
In the decade between the two financial crises, social economic indicators improved, supported by macroeconomic management and concrete policy changes at the national and regional level. An average growth of 6.8% per annum was started. Putin ended the so called ‘bandit capitalism’ and stressed the predominant role the state has to play in the economic activity, by consolidation of state- owned sectors, such as the fuel sector (Proedrou & Frangonikolopoulos, 2010). Putin’s reorganisations did not prevent the economic crisis in 2009, which caused a decline in the demand for Russian energy products. In the first quarter of 2010, the government investments in the economy increased. High oil prices stimulated growth and reduced the budget deficit. There is still a long way to go, reducing the workforce gap, corruption, increasing the capital for non-energy small companies, and the investment in poor infrastructure.

The Russian economy is dependent on the national resources with the heavy state interface. The bank business, agriculture, consumer, and service goods are nationally protected. This explains the low level of international banks in Moscow (Key World Energy Statistics, 2010). The reliance on competitive exports and global commodity prices makes Russia vulnerable to the world economic changes. Export partners are the Netherlands, with a share of 10.6% of total exports, Italy with 6.5% and Germany takes the third place with 6.2% of total exports. Import consists of

machinery, vehicles, plastic, meat, fruit, optical, and medical instrument. Import partners are Germany 14.4%, China 14% and Ukraine with 5.4% (CIA Factbook, 2011). These indicators show Russian dependency and the tight economic relation between Russia and its trading partners.

Nowadays, Moscow is the heart of the political power of Russia, which started back in Tsarists times. On the one hand, the city is full of decision- making functions, control and management, high employment rates in science and high tech industries. On the other hand, there is a concentration of outdated industry, metallurgy weaving industry and chemical industries (Proedrou & Frangonikolopoulos, 2010). This new economy has a different geography and different growth urbanization patterns. The economic growth is concentrated in large cities in the western part of Russia, which is relevant for the national and international economy (see figure 3.3). This figure shows the distribution of people and the economic relevant cities. There are only eleven cities with more than one million inhabitants.

Figure 3.2 Russian cities with over 1 million inhabitants.



Source: International Economic Forum fast facts, 2011

The recent Russian economic growth is financed by resource rents from oil and gas fields, such as Tyumen in the Ural Federal district, and forestry and mining in northern and eastern regions. There is a continued importance of resource based industries together with the regions where they predominate. The state has power over the oil and gas production by controlling more than 50 % of the output. The geographical consequence of this is, that the state plans in regions which are dominated by the oil and gas and other strategic industries. These state controlled industries also determine the direction of economic developments (Kolossov & O'Loughlin, 2004). In order to prevent further resource dependence, Russia's strategic economic goals report 2020 (2008; DSM, 2011), describes future recommendations and analysis. The three main goals are localisation, modernisation, and diversification of the existing economy. These three goals must stimulate local production for MNE and decrease the knowledge gap.

Another important observation is the low percentage of small and medium sized enterprises (SMEs) in Russian economy, estimated at 10- 15%. The average in a developed country should be about 50% (Lodwijk Schlingemann, 2011). The Russian geological community has urged the government to recognize the problem of intensive and inadequate level of the resourced based economy. At last, it has been voiced by the officials, in the words of Prime Minister Vladimir Putin, '*The potential for growth based on the former resource base and outdated technologies have in fact been exhausted.'* (Moe & Kryukov, 2010). Medetsky (2011) mentioned that Putin is giving himself the role of supporting medium sized businesses by formally starting a

non-profit organisation: the Agency of Strategic Initiatives. The key task is to support those who have already done something. This organisation can serve as a bridge between businesses and banks, and helps to educate the type of professionals the market needs. These plans are needed to support to the diversification of the Russian economy.

3.2.5 The politics of resource management

Liberalism played a crucial role in Western Europe in political-economic and ideological high valued liberal democracies; this was never the case in Russia. Post-Soviet liberal reforms were especially in the economic domain, and the political system in Russia remained centralized. Putin's presidency led to diminishing of checks and balances in the political process and stabilisation of the political power to the state, his party and his *silovik* (Proedrou & Frangonikolopoulos, 2010). The *siloviki* clan is a group of politicians related to the Russian security forces, such as FSB (state security organisation), and the former KGB. They became powerful during Putin's presidency and these political elite influenced and controlled the economy. This was visible in the nationalisations in the petroleum sector and reforms in the constitutions related to foreign ownership in fossil fuel development. Kremlin's inner circle of national oil companies, Rozneft, Gazprom and Transneft; provides the elite with even more influence (Mankoff, 2008). The Oil Stabilization Fund in 2004 and National Welfare Fund in 2008, provided the political elite with funds in which the fossil fuel economy rents were accumulated (Robertson, 2007).

Resources exploration can be divided into three stages: 1) regional geographical survey; 2) exploration and evaluation of structures; and 3) preparation of resources. The first stage is mostly done by the state. The next two stages are more connected with economic gains by involving state, service and oil companies. For a long time, exploration and renewal of the resources was not a high priority at the political level. It was driven by the industry itself, in pursuit of its own interests. By doing so, the government reduced the ability to pursue a resource- management policy. Since 2005, both oil companies and the government started to re-assess their strategy and allocate more funds for geological exploration. However, the financial crisis decreased geological exploration funds. In 2004, the Ministry of Natural Resources introduced a new program, involving a federal program for exploration based on licensing rounds. This program selected oil licenses in Russia according to two principles: selecting on the basis of technology or on the minimum requirements which offers the highest sum to obtain the license. There were some weaknesses as licensing could be give to less experienced resource users and this could lead to a less efficient resource development. In 2008, the scope of licensing has been narrowed. The Law on Subsurface Resource installed Rosneft' and Gazprom as monopolist offshore and addressed the need to secure the finder's right.

Until today, the barriers for new entrants remain high due to the fees, required to secure a license, and the time consuming nature which discourage companies from engaging in Russian exploration. According to Moe and Kryukov (2010), government's exploration budget must increase in the future and the licensing is an essential tool by which the authorities can secure efficient management of Russia's resource base. The management system in Russia has been weak, in the interests of the resource companies, but the new legislation and practices have strengthened the role of the government. Foreign companies have been relegated to a supporting role and state dominated companies, such as Gazprom, have been able to expand their power.

The oil and gas extraction will change in the future. Moe and Kryukov (2010) analysed the impact of politics and developments on resource management. The reserve rate is falling, compared with the high levels during the Soviet Time. Developing new fields will become more complicated, since new fields are smaller and more heterogeneous in their geological characteristics than the earlier developed fields. Furthermore, new fields are located in remote locations with harsher climate locations and little or no infrastructure which make them more costly to explore. Even though government is now in the business of financing large scale infrastructure projects in the future (News Base Issue 643, 2011).

Russia continues to consume, and companies in many sectors continue to require foreign equipment, technology and know-how to operate. Despite the crisis, Russia was still offering plenty opportunities for flexible foreign companies and this opened some new investments possibilities (Masterclass doing business in Russia, 2009). These opportunities required high risk management and a movement towards the market. One of the attractive industries was the oil and gas industry with sufficient financial resources, and the Russian market was attractive to invest in (Bradshaw, 2008). The Russian government must keep its influence in oil and gas policies, to keep this industry stable in the long run. If natural resources are left out, Russia has only maintained its arms and space industry, though neither has produced a new product for world markets in the last ten years (Paillard, 2010).

3.2.6 Human Capital

Human capital is significant for organisations' value creation and profitability. As soon as a company decides to increase its activities, human capital becomes a crucial aspect. In this chapter, the human capital, as a part of the economic and political landscape will be discussed.

According to Hansson (2009), human capital is '*the productive capacity that is embedded in people and one of most important contributions to the growth in nations output and standard of living over time.'* In order to manage office staff, training can be provided or staff can be employed from abroad. Hansson (2009) suggests that the existing theories describe a positive relationship between employer-provided training and firm outcomes. The return on training investments is higher than returns on the other similar types of investments. In 2008, The Lighthouse Group published an article about the Russian mentality in business culture. Foreign entrepreneurs in Moscow shared their experience. The reason why many companies often work with expats has to do with the Russian mentality and staffing costs. This discourages hiring local people for higher positions.

Van Oord BV operates in all three offices in Russia with Dutch employees. The high positions are taken by Dutch employees. Secretaries, legal advisors, translators, drivers, accountants, and marketing P&R people have a Russian nationality. During the project preparation and tendering process, a delegation of estimators and a project manager are coming over from the Netherlands.

For decades, Van Oord BV had enough employees for the domestic and abroad activities. The recent situation shows a different trend. Europe is facing the complex problem of an aging population and there is a shortage of high skilled engineers and marine educated candidates. In a round table conversation, with Van Oord and Vopak, (2011), there was a discussion about the difficulty in broadcasting Dutch staff to operate in foreign countries. The uncertainty of the foreign market, the cultural differences, and the long period to stay abroad are less attractive terms of work. Van Oord BV's competitors on the Dutch labour market have taken different

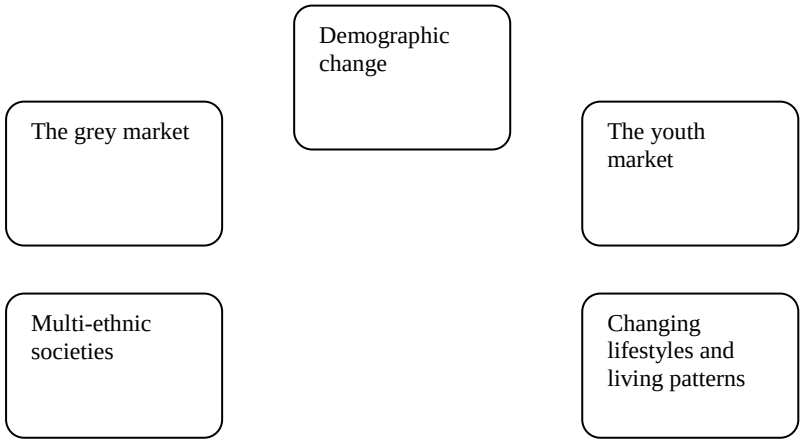
measures against the shortage of skilled employees, for example, by increasing the attractiveness to work abroad with numerous benefits. Van Oord BV is also coping with issue, for example by recruiting abroad. Recently, Van Oord BV is offering internal courses and is planning to open an Academy. The purpose of this Academy is to recruit experienced employees with technological backgrounds and train them for Van Oord BV. Another concerning the labour market has to do with the commitment. The Agentschap NL (2010) describes strategies to bind qualified staff to the company in the long term, for example by creating training opportunities. There are also possibilities to work efficient by organising trainings in cooperation with other companies. Local universities and other educational institutions can be used to develop these training programs. Special attention on the female labour market can increase the female labour acceptance in Russia.

3.3 Social and cultural environment

3.3.1 Social and cultural trends

The social and cultural variables described in figure 3.3 can have important implications for an operating company in a foreign country.

Figure 3.3 Social and cultural variables



Source: Hooley et al., 2008

Considering the demographic change, a good example is the western 'demographic bomb' which started to have an impact on various businesses. It is about the better standards of living and the increased life expectancy. Looking at the grey market, in the developed West, the over-60s age group is 20% of the population. Demographic changes and multi-ethnic societies have become more affluent and can offer new opportunities for marketers. This group is increasingly vocal about what they object in conventional marketing and advertising. Social trends reference also to the changing lifestyle and living patterns, good examples are changes in households, and the greater concern for personal health (Hooley et al, 2008).

3.3.2 Russian social and cultural trends

Russia is the largest country in the world in terms of territory and it has a population of 141.945 million, which is 2.2 % of the world population. The average population density is 8.3 person per square kilometre, but there is a regional variation;

the average population density in the Central Federal district, including Moscow, is 57.7 person per square kilometre, while in the Far Eastern Federal District it is only 1.1 person. Moscow's surface area is about 1097 square kilometres, the Dutch province Utrecht has approximately the same surface area but the population density is 875 persons per square kilometre. This large difference between the 57.7 persons in Moscow and 875 persons in Utrecht is probably caused by the different living patterns and distribution of inhabitants within a city (CBS, 2009). The Central Federal District occupies 3.8 % of Russian territory, accounts for 34.2 % of total GDP and is home to 27.1 % of Russian population. In contrast, Far Eastern Federal District occupies 36.3 % of Russian territory, is home to 4.4 % of Russian population and produced 4.6 % of total GDP (Bradshaw, 2008). These rates show the uneven distribution of population, wealth, and economic activities in Russia.

During the 90's, the birth rate dropped and the economic crisis in 1998 and the second crisis after 2008 decreased it even more. The decreased childbirth rate created a gap in the demographic situation in Russia. The consequences of this gap are visible in the shortage in childcare in the Russian capital and in many other large cities. The Russian growth rate is -4, 47%, which means that the people are aging. In the world list of population growth, Russia ranks on 223th place of the 231 countries. Looking at the birth rate, there are 11.5 births per 1000 persons. Russia's death rate is 16.4 per 1000 persons. For example, the Dutch death rate is 8.85. Although recently the birth rates increased, the Russian birth/death ratio is still negative and effects negatively the population growth (see figure 3.2) (CIA World Factbook, 2011).

The total Russian population can broadly be divided into two parts: economically active. These people are in the age between 15-64 and economically non active, people who are young, unemployed, students or retired (Goskomstat, 2009; SPIEF, 2011). The total Russian population is 141,945 million from which 71.8% is economically active, about 101.917 million. See figure 3.2 for further indicators.

Table 3.2 Russian demographic indicators

	Life expectancy (2011)	**World ranking (222 countries)**	**Economically active people (millions)**	**Employment indicators (millions)**
Total	66,3	162	101,92	
Male	59,8		48,58 (47.67%)	45,13 (92.9%)
Female	73,2		53,32 (52.32%)	50,44 (94.6%)
NL total average	79,7	35		

	Population (million)	**Age 0-14**	**Age 5-64**	**Age 64 and over**	**Male (total)**	**Female (total)**
Total	140,4				64,1	76,3
Male		10,9	47,8	5,4		
Female		10,6	52,8	12,9		

Source: CIA World Factbook, 2011; World Bank Indicators, 2008; SPIEF Knowledge platform, 2011

The Russian demographic indicators are presented in table 3.2. The life expectancy of the Russian population plays a significant role, especially concerning

the age of retirement. Russian average life expectancy is much lower than the Dutch one. Table 3.2 shows almost an equal distribution between the male and female labour participation. The decreased childbirth during the 90s and the recent increased childbirth will lead to a skewed distribution between the economically active and economically non active part of the population. The government is also planning to increase the average retirement age. Nowadays, a Russian male retires at the age of 60 and a female at the age of 55 (World Bank Indicators, 2008). Together with the low life expectancy of the Russian population and the poor healthcare, this governmental decision will not benefit the society.

A survey has been held to analyse residents' income differences in Moscow. The majority of the residents, about 55 % confirmed that their family material conditions were average. About 11% of the respondents confirmed to be good and very good provided, although a remarkable large percentage, 34 %, was rated as poor (27%) and very poor (7%) (Kolossov & O'Lounghlin, 2004). After the crisis, the Russian economy and social conditions changed dramatically. A growth of social unrest occurred due to the unemployment of 7.7%, and an increasing inflation of 17% in 2009, which led to protests in several Russian cities. The government was cutting back in investments and that affected negatively the developments in healthcare, education, infrastructure, and increased the poverty gap (Master class doing business in Russia, 2009).

Russia has huge differences in the population densities, (see paragraph 3.3.2) and a large differentiation of economic activities across the country. The two largest cities, Moscow and Saint Petersburg, are shaped by the recent economic growth. This made Moscow, for example, the most expensive city in the world. These fast developments lead to the urbanisation flow of the young population, migration flow of retired population to the suburbs and to the surrounding areas (CIA Factbook, 2010). The developed state of Russian large cities created also a domestic and from post-Soviet countries migration flows from low to high dense areas. The growing social, ethnic, and cultural diversification shaped the metropolitan city Moscow, as it is today (Kolossov & O'Lounghlin, 2004). Migration flows affect the Russian population, especially in the big cities. The impact of the former Soviet Union era is visible. For example, Moscow consists of a mixture of Russian 79.8 %, Tatar 3.8 %, Ukrainian 2 %, Bashkir 1.2 %, Chuvash 1.1 %, and other or unspecified 12.1% of the population (World Fact Book, 2011). Most of the ethnic groups were attracted by the prosperity of the big cities and the fast economic growth, but faced the reality of no future opportunities.

A final observation concerns statistics of Russian graduates, R&D spending and labour productivity (SPIEF Knowledge platform, 2011). Moscow takes the second place as a driver of national economy by producing 10 % of the total national GDP. Russia is spending about 21.8 billion on research and development compared to China which spends 123.7 billion (both figures from 2009). Around 1.7 billion people graduate from the Russian Universities, comparing with China's 3.9 billion. One must see these figures in the context of population and country's GDP ($). China's population is 1.3 billion, Russia's 141 million, and the GDP is respectively 3985 and 1231 billion dollars. Putting these facts in the context, Russian GDP, R&D and the number of graduates per capita are higher than the Chinese ones.

Russia recovered fast from the crises and the economic growth occurred soon, taking into consideration that compared with Europe, Russia undergoes the described economic developments only in the last decade. The luxury that was only available for the upper class is now available for the increasing middle-class. In short time,

living standards improved and people realized that the possibilities were larger than ten years ago. The middle class increased, their cosmopolitan consumerism increased as well. The rising consuming behaviour motivated the marketers to develop consumers' goods and services, in relation with the new demand (Kolossov & O'Lounghlin, 2004).

3.4 Technology and innovation

3.4.1 The technological trends

Technology and innovation trends play an important role in country's business environment. A good example is the product life cycle of Vernon (Hooley et al., 2008). The shortening of commercialization times has led to a shortening of product life cycles, with production processes becoming more quickly than previously. Newer technology has a major impact on particular aspects of marketing. For example, new technology can give monopoly power through getting information first. Time and distance are shrinking rapidly as firms use more technologies to increase the efficiency of their operations.

3.4.2 Russian technological trends

The technological part of the PEST-trends is about the innovation power of a country or an economic sector. Innovation does not occur by itself; new investments in R&D are crucial for the developments. For a long time, Russian investments were concentrated on the development of natural resources which were mainly placed in large cities. These were the most privileged subjects of the federation and were especially the capital regions, oil and metallurgical provinces, such as Moscow and Moscow Oblast. (Nefedova et al, 2010). These cities have advantages over the smaller cities such as concentration of financial resources, agglomeration economies, a broad range of employment opportunities and preferential access to human capital, a strong service sector, and a much stronger physical infrastructure. Together with the information supply, these advantages are crucial for a global oriented city.

The Russian economic report (2011) describes that economic performances vary across the regions. The existing and new entrepreneurs still find it difficult to operate in the Russian business environment. Competition levels are insufficient to produce greater firm innovation. Many firms often operate at a low level of technology because there is a lack of efficient innovative production technology. Looking closer at Russian competition opportunities, it shows that the lowest score is on innovation. Besides that, there is a lack of competition, weak institutional environment and high barriers to establish and run a business. Also the financial sector shows a relatively low result. The biggest strength of Russia is the combined access that firms have to nearby markets and the size of their domestic market. The low medium-sized enterprise indicator describes that there is a low capacity of innovations, where entrepreneur activity is connected with the introduction of new products, new methods of production and other innovations that stimulate economic activity (Schumpeter, 1939). Recently, Russia has made an effort to put the nation on the world map as a good place for investors, by planning to develop a silicon valley.

To increase the average skill level of the Russian population, the government is planning to start an 'Educating children for the Global Information Society' program. The e-learning supported project must increase competence in information and communication technologies (ICT). There are already seven regions which are the

leaders in applying ICT into the education and the plan is to implement this program in thirty regions (Humber & Kim, 2010).

Looking forward, technology will continue to provide service companies with new competitive weapons, such as decreasing the distance between the demander and the supplier by using technological alternatives. These methods can offer foreign companies both high quality and lower costs (Mathe & Perras, 1994).

3.5 PEST- trends in relation with Van Oord BV

Chapter three described the main political, economic, social, and technological trends in Russia. This paragraph will provide an overview of the main findings in relation with Van Oord BV.

1. *Liberalism played a crucial role in the western part of Europe in political-economic and ideological high valued liberal democracies; this has never played that same role in Russia.*

Post- Soviet political system in Russia remains centralized and shapes a bureaucratic system with time-consuming process and unclear administration rules. Russia is trying hard to integrate into the world economy, although Russia has a different business culture than in Europe and doing business is still complex.

2. *The Russian economy is reliant on commodity exports and the private sector remains subject to heavy state interference, being the number one exporter of natural gas in the world.*

Kremlin's inner circle, of national oil companies, Rozneft, Gazprom and Transneft play an important role in the Russian economy. Gazprom is the main operator in Russian (arctic) gas projects. Van Oord BV performs in Moscow mainly in the gas industry which is heavily state controlled. They do not interact directly with the Kremlin and Gazprom, but their Russian partners do. This means that Van Oord BV indirectly is affected by the heavy state-control and therefore many complex procedures.

3. *Economic growth is concentrated in large cities in the western part of Russia.*

Van Oord BV made a strategic decision to locate in Moscow. This city is important because of the concentration of relations in the oil and gas industry. Besides, the largest part of national investments is made in Moscow. The city infrastructure, world orientated telecommunications technology, institutions for the foreign companies and trade relations are located in Moscow.

4. *As long as there is no other option than oil and gas to satisfy the growing demand, energy will continue to shape the future economic and political relations.*

Russian economy is one-sided, relying on energy resources. There is a continuing importance of resource industries and regions where they predominate. Energy resource trade is already determining European and Russian relationship. This economic and political interdependence is not going to change in the following five to ten years, which means that Russia can offer Van Oord BV opportunities in the long term. Besides that Russia wants to keep their influence in Europe as the major gas supplier. This is clearly shown in Nord Stream project and will be intensified by the new plans for developing a third pipeline and creating for Van Oord BV project opportunities.

5. *Developing new oil and gas fields will become more complicated and costly because of the underdevelopment of the infrastructure in remote regions.*

There is a clear chance that Russia will need more foreign companies to be able to produce and exploit the same amount of energy as before. The government is also planning to construct large scale infrastructure projects in the future to improve the infrastructure in remote regions and in the rest of the country. One of Van Oord's performances concerns land infrastructure. In case government is planning to carry through these projects, Van Oord BV could play a significant role.

6. *The future energy for Europe suppliers is concentrated around a small number of countries.*

The energy suppliers for Europe are Russia, the Middle East and the Caspian ex-Soviet countries, such as Kazakhstan, Azerbaijan, and Turkmenistan. In the future, the Caspian Sea and Yamal will play an important strategic role, creating new opportunities for Van Oord. Together with the oil and gas future scenarios, the necessity for Van Oord BV to maintain their location and expand in the future is necessary.

7. *Human capital is significant for organisations' value creation and profitability.*

Moscow is a global city and must contain a flexible and a constant flow of young and eager graduates. Human capital is of a great value for Van Oord BV as a foreign marine construction company. At the Dutch national level, there is a shortage of engineers and marine educated candidates. Looking at the international level, there is a shortage of employees willing to work abroad for a significant period of time. At the local level, like in Moscow, there is a lack of adequate employability, mainly caused by their lack of experiences or qualities which foreign companies are used to work with. The future employment development at national and international level will determine Van Oord's BV global employment policy.

8. *The government policies can do more to improve the business climate and focusing on the short-term objective.*

If the business environment of a foreign country is to complex and not user friendly, it is less likely that new companies will start to operate. To improve the user friendly government institutions and strengthening the investment climate remain key challenges in the short term. These improvements could benefit Van Oord BV and other foreign companies for making their activities more efficient.

4. MARKET ENTRY STRATEGY FOR SERVICE COMPANIES IN THE OIL AND GAS INDUSTRY

4.1 Introduction

Transition economies are a target market for foreign firms. The collapse of the central economic planning in Soviet Union opened many opportunities for the market seeking international corporations. After 1989, USSR and later Russian Federation, began to promote market economy and opened its borders to foreign companies. Despite the high risk, the Russian Federation has captured many entries because of its size and market potential.

4.2 Entry strategies

4.2.1 Defining the entry mode

The intensity of the global competition makes the topic on entry mode relevant. Multinational enterprises are required to expand, foster their presence in established and emerging markets (Root, 1987). The foreign entrants have a choice between a range of entry modes, vary from non- equity modes, includes exporting, and contractual forms like licensing, to equity based forms like international joint ventures or wholly owned subsidiaries. These modes differ in terms of risks and return prospects (Anderson & Gatignon, 1986).

The last decades, the entry mode decision literature has been constantly modified and renewed. Recently, the transaction cost theory and resourced based view are known as the principal theories to explain entry choices. The main focus is set to explain entry modes as rationale for the reduction of transaction costs or to exploit and enhance competitive advantages of firms (Sharma & Erramilli, 2004, Madhok, 1997). Root (1987) gives the broadest definition as he describes entry modes as an *"institutional arrangement that makes possible the entry of a company's products, technology, human skill, management, or other resources into a foreign country".* Anderson and Gatignon (1986) apply a narrowed view on the entry mode "a governance structure that allows a firm to exercise control over its foreign operations".

4.2.2 Making the right choice

The choice of entry mode is at the same time a choice between risks and return or between costs and benefits. It is for a company not economically reliable to switch entry modes once it has already entered the foreign market. A wrong choice of entry mode might have several long-term consequences for a company, such as fewer opportunities and limited ranges of strategic options to open the firm. An interesting aspect would be of how firms would choose if they have the choice. Madhok (1997) explained two issues, first concerning the firm's motivation to go abroad and the second is about the means available to succeed in this undertaking. The underlying motivation the entry decision itself which can arise from the firm's potential to either exploit an advantage or to develop a new one. Considering the means to go abroad, analysing the strategic elements for the foundation for any type of entry modes is recommended (Root, 1987).

4.2.3 Categorization of entry mode

Hymer (1976) has laid the foundation for entry mode theory in his work on foreign direct investments (FDI). He argues that firms tend to enforce an imperfect

market structure abroad in order to spread their domestic success. The higher the degree of market imperfection, the higher the chances for the FDI (Sharma & Erramilli, 2004).

It is not possible to develop a universal applicable entry strategy for example one specific region. Each firm has to develop a specific entry strategy for each product in each foreign market. By analysing the products and foreign markets together with the market specific objectives, the decision on the type of entry can be made. A firm can choose between exporting, contractual agreements, or wholly owned subsidiaries. After this is done, developing of the marketing plan and the control system to monitor performance has to be implemented. Root (1987) classified entry modes by distinguishing between modes that demand a transfer of resources, such as equity joint ventures and wholly owned subsidiaries and those that rely on exports and contractual agreements. Root describes them as follows:

Exporting

The difference between exporting, contractual agreements, equity joint ventures, and the wholly owned subsidiaries is that in the former mode the company still bases its manufacturing process outside the target market (Root, 1987). A firm can use indirect exporting by cooperating with another firma located in the same country. This mode is seen as the most preferred for companies without any international experience. The direct exporting applies when a home-based firm is exporting itself or uses intermediaries located in the target market (Sharma & Erramilli, 2004). This implies to manufacturing companies. Service companies on the other hand have to rely on the foreign direct investments to be able to serve their foreign clients.

Contractual agreements

According to Root (1987) this agreements include licensing, franchising, and alliances. These are long- term no- equity associations between an international company and an entity in the foreign country. These kinds of agreements involve transferring of technology or human skills from the former to the latter. In other words, it has to do with the exchange of skills and know-how (Root, 1987). The licensing agreement is a transfer of protected rights/ resources (patents, brand name, etc.) for a period of time, in return for royalties. Franchising is similar, but differs in terms of duration, service, and motivation. The franchisor provides assistance to the franchising activities along with the value chain. There is also a strategic alliance, which is motivated by the idea of mutual knowledge exchange and enables a firm to get access to the partner firms' skills and resources (Root, 1987).

Equity joint ventures

Equity joint venture is a particular type of strategic alliance in which two or more firms create, and jointly own, a new independent organization (Cateora & Graham, 2002). Joint ventures are involved with more risks but also have more potential for return, comparing to non- equity entry modes (Anderson & Gatignon, 1986). The members of an alliance have to rely on trust and reciprocity in order to reduce the opportunistic behaviour.

Wholly owned subsidiaries

This type of entry involves the highest stake of equity ownership and control (Root, 1987). The entrant has the highest profit potential but has to bear the entire decision making responsibility by itself (Anderson & Gatignon, 1986).

Root (1987) described that the market entry modes are based on his model upon three groups of variables, presented in figure 4.1. He used this model to analyse the companies which are starting of do business in a foreign country. Root showed that there is a relation between firm's characteristics, target country, and country's environment.

Figure 4.1: A model of foreign market entry mode

Source: Root, 1987

According to Cateora & Graham (2002), there are four different modes of foreign market entries: exporting, the internet, contractual agreements, and foreign direct investment. This represents the strategies from low to highest investment and risk-return potential. Choosing among these strategies depends on many factors. The firm, country, and environmental factors determine the modes of foreign market entry. This theory is almost similar with Root's theory, except it includes internet and leaves aside the wholly owned subsidiaries. These both theories can be combined in order to investigate the mode of entry, as the contractual agreement is the relevant entry mode. Corporate with the MRTS, name of a company involved in interregional pipelines construction, Van Oord BV is using contractual agreements in Moscow. These are long-term non-equity associations between an international company and an entity in the foreign country. Contractual agreements involve the transfer of technology, processes, and human skills.

4.2.3 Motives to enter foreign markets and Multinational enterprise

For multinational enterprises, the ultimate goal for growth and profit maximisation are the main drive forces to enter a foreign market. Some direct motives can rise from diverse backgrounds, such as escape from the home land stagnation to find a new potential abroad. It can also be a necessity to go along with the international expansion of domestic rival firms or the reason rests on the strategic choice of firms to follow their domestic customers abroad, which is common among service companies (Root, 1987).

Van Oord BV is an independent and private company which is involved in various projects worldwide. In order to understand the choice of Van Oord BV to locate in Russia, the issue of location and the multinational enterprise (MNE) should be outlined. According to Dunning and Lundan (2008), a multinational enterprise (MNE) can best be characterised through engagement in international business, foreign direct investments (FDI) or owning or controlling value added activities in more than one country. The literature has defined seven criteria for assessing the

degree or identity of an enterprise's multi- nationality or trans- nationality. These criteria include:

1. *The number and size of foreign affiliates or associate companies it owns or exercises control over;*
2. *The number of countries in which it owns or in some way controls value added activities such as mines, factories, offices and hotels;*
3. *The proportion of its global assets, revenue, income of employment accounted for by its foreign affiliates;*
4. *The degree to which its management of ownership is internationalised*
5. *The extent to which its higher value activities, for example, research and development are internationalised;*
6. *The extent and pattern of the systemic advantages arising from its governance of and influence over, a network of economic activities located in different countries; and*
7. *The extent to which responsibilities for the creation and usage of institutions and assets as well as decision making concerning financial and marketing issues, are devolved to foreign affiliates* (Dunning & Lundan, 2008).

Analysing these criteria shows that they do apply for Van Oord BV. They operate in several countries worldwide and have more than one office in one country (see Appendix C). The annual revenues, described in the annual reports of 2009 and 2010 are significantly high and the total employees are about four and half thousand. Van Oord BV operate in an uncertain environment whereby it has to decide whether to coordinate the activities through the usual rule in the host country or through an internally corporate planned organization and decision making system. According to Dunning (2008), a firm needs to have an organisation structure for various conditions. Also the relationship between the organisation structure, the information behaviour, and the location behaviour of the firm is important. Location decisions are also organisational and informational decisions, and a multinational has to take organisational decisions in line with the location decisions.

4.2.4 Location aspect

There are many different approaches to analyse a location. The applicability of traditional location theory to the spatial analysis of MNE is very limited by treat location issues very unspecific and non-analytical. That is because there was no distinguish between different types of locations within a country. Location started to become a more central issue since the 1960s, because the role of U.S. Foreign Direct Investment in Europe (Cantwell, 2009). A company needed to use location as a source of competitive advantage for the firm.

The choice of a company to choose that particular location instead of any other and the integration process is the central point of discussion nowadays. Thus, the decision making behaviour of the MNE firm is related to geography and location. A key aspect to a location's attractiveness is the competitive advantage as described by Porter (1985). This attractiveness lies in what this location can provide the MNE, for example in the form of a good infrastructure, physical (transport and communication links) and human (trained work force, labour market). But a location can also provide opportunities for learning from other leading firms using international and national knowledge inflows. A good example of the knowledge inflows may be R&D-intensive industry clusters or the presence of a leading research university in the

region. With the help of Porter, the L component of Dunning's OLI paradigm (McCann & Mudambi, 2004) was discussed in more geographical detail, such as particular cluster location, and not defined as a country. According to Porter, a firm should locate where similar firms are also located.

Sharma and Erramilli (2004) describe that the original version of the eclectic paradigm was limited to three forms of entry mode: exporting, licensing, and FDI. The market internationalisations were led by the principles of structural market failures. In the renewed version, Dunning include cooperative structures in the internalization dimension and extended the ownership dimension by adding the skills and the ability of foreign entrepreneurs together with the spatial integration in the local dimension (Sharma & Erramilli, 2004). The ownership decision is a function of transaction costs, this means that a firm should seek for the most efficient entry mode which is minimize these costs. The transaction costs include writing, negotiation and enforcing contracts, and monitoring other actor's behaviour. Firms often choose the strategy dependant on what the firms-specific resources can support, such as physical machinery, processes and procedures, brand names, human capital, and intellectual assets. These resources have the potential to become a source of competitive advantage in the future (Sharma & Erramilli, 2004; Madhok, 1997).

According to Madhok (1997) a firm is constrained by two factors. The first one is to find a location and the second is to make an ownership choice, dependent on the resources of the chosen location. The host country resources could be for example, market conditions, policies, the availability of skilled labour or row materials. To use these factors in the benefit of the firm, it is crucial that there is a fit between host country resources and firm- specific resources. After that, a firm can have the ability to transfer the resources abroad, which is dependent on the host country absorptive capacity. This capacity is a range of business supporting issues, such as infrastructure and professional labour supply. So, a host country must have "*the required human, technological, financial, and organisational capabilities (…) to deliver the desired competitive advantage"* for a firm (Sharma & Erramilli, 2004). This competitive advantage can be increased within the framework of the eclectic OIL paradigm by Dunning in 1977. This paradigm entails that multinational activities are driven by the three sets of advantages, namely ownership (O), location (L), and internalization (I). These advantages encourage or discourage a firm from undertaking a foreign activity and becoming a MNE.

"*Ownership advantages are firm-specific advantages (FSAs) that emanate directly from resources owned or controlled by a firm. Location specific advantages, whereby 'location' in this framework refers to a country, are based on resources, networks, institutional structures, or other advantages that are specific to a country. Finally, internalization advantages are those that accrue to a firm when it eliminates the transaction costs associated with market interaction and internalizes these activities by bringing them inside the hierarchy of the firm (…) Country specific advantages may be such as the size and character of the market, and the physical distance from key markets to the home country of the MNE"* (McCann & Mudambi, 2004).

The ownership advantage is about the competitive or monopolistic advantage that can help a foreign firm to compete with local firms. It includes all the assets and skills to differentiate a firm product or services. The location specific advantages include the potential, such as size and growth prospects, but also the investments risks in a target market, such as economic and political uncertainty. Both, the potential and

risks are important in entry mode decisions, as they might lead to ending or expropriation of assets. The final aspect is about the internalization advantages. The main findings are that firms should prefer low control market entry modes, because they can profit from the scale economies. Internalize is also seen as to avoid the costs of moral hazard and can lead to the behaviour of opportunism (Dunning, 1995).

4.3 Entry modes in Russia

The market –oriented reforms in Russia started only in the beginning of 1992, after the collapse of Soviet Union. Over time, the transition economy made progress-oriented reforms and became attractive for foreign companies. Entering a foreign market takes time to build up market networks and create company image.

Firms tend to start their internationalization process with entry modes that minimize risks and do not involve large amounts of company resources. Low commitment entry modes are commonly used and include exporting, licensing, and subcontracting. Previous studies have shown that large multinationals often seek the large risk entry modes, such as joint ventures, acquisition or wholly-owned companies. Establishing in a foreign market can have several reasons: the need to control assets in the region, the ability to monitor competitors' moves and changes taking place on the market. Also, the ability to react faster on the changing market conditions, utilization of cheap local labour, building up the customer networks, and the better customer service play an important role. By the end of 1990s, many companies have established a position in Eastern European market. The market became competitive and nowadays, foreign companies have to deal with more attention to their own competitive strengths. This can be done by innovative products and technological skills. According to Nieminen et al. (2011), the government, unstable environment, and poor infrastructure have a negative influence on performance and domestic performance shows a better result than one in Russian market. Firms with little or less international experience can easily make the beginners' mistakes because of limited country specific knowledge.

4.3.1 Russian entities

Entering a foreign country requires legal or non-legal entities (see Appendix G). There are three prevailing forms of legal entities in Russia:

1. Limited liability company (OOO)
2. Closed joint stock company (ZAO)
3. Open joint stock company (OAO)

There are also two ways to establish a non-legal office in Russia by using a representing office (RO) or a branch office (BO). The characteristics of each one are described in Appendix F. Founders and shareholders may be any Russian and/or foreign companies and/or natural persons. Dividends of Russian legal entities are repayments of loans and viewed as forms of repatriation. The liabilities of the owners of a legal entity are the nominal value of the shares for the ZAO or the capital contributions for OOO. A legal entity may import goods through customs for itself and can own a bonded warehouse. Goods delivery is made directly to the name of the Russian legal entity. A legal entity must apply for both work licenses (for the company) and work permits (for the employees) and register with the Migration Service to issue work visa support. The processes are unclear and rules often change which make it complex to plan the results (Russian Legal entities, 2010). Looking

closer at the RO and BO, the liability of a foreign entity is not limited. Using RO /BO requires a customs agent for customs clearance and it is only permitted to lease a bonded warehouse. Importing goods must be directly related to the name of a Russian company, by taking care of the custom clearance; or via a Russian agent company, taking the obligation of carrying out customs clearance. In some cases, regulations require work permits for foreign employees. Although this is ignored in practice as this law is applicable to a legal entity, and RO and BO are non-legal entities.

The above described types of entities show that the services in Russia can be provided through a legal entity or an RO/BO. An RO/BO is the simplest form of an establishing an office with tax and visa advantages available through lower administration costs compared to a legal entity. An RO is a simple form for non-commercial activity in Russia. BO is similar to a RO but has the possibility to conduct commercial activity. Looking at the legal entities in Russia; OOO, OAO, and ZAO can be used for importing and producing goods. OOO is useful when the situation requires a 100% ownership. A ZAO is similar to the Dutch "BV" and useful for international joint ventures but has the disadvantages of long registration process, time- consuming administration, and strict registration of shares with the Federal Securities Commission. These variant can be used in case a company plans to go to the Stock Exchange or increase its shares (Russian Legal entities, 2010; Lodewijk Schlingemann, 2011).

4.3.2 Entering the Russian market

In 2008 and 2009, Van Oord BV has worked with MRTS, a company involved in interregional pipelines construction (an OAO). The project was organized in the Netherlands and performed in Russia. The project with MRTS, has laid the foundation to look at the Russian market from the perspective of its potential for new projects. The Dutch headquarter analysed the local market objectives and did market researches before they decided to invest in Russia. In the beginning, Van Oord BV chose a low level of involvement. In 2009, the decision was made to open an office near the MRTS office for the future corporation. At that time, the branch manager for Russia and the project manager operated together in a single office. Nowadays, the office is managed by the branch manager and also by the project management team (de Ruijter, 2011).

In order to operate according to the Russian legislation, the office in Moscow is supported by other legal entities. Van Oord BV uses different type of entities because the rules change frequently. Each legalisation, project or taxation process requires different entities (see Appendix F). Al these entities are needed to organize the Dutch activities in Russia. The office equipment and other office contracts are organised by using the name Ballast Ham Dredging LLC. Project related documents and processes are organized by using BUDA BV.

The reason to open an office in Moscow was project driven, but the fact that Russia will be more important in the future was also taken into account. Figure 4.2 show the recent project areas and future potential locations in Russia. The last three years, Van Oord BV operated in the Baydaratskaya Bay Crossing area and in Sakhalin. Future project include Filanovskii areas (in the Caspian region for LUKoil), Stockhmann (in Moermansk for Gasprom), the Bayderatskaya Bay for the 2012, the Yamal region, and the South Stream. Looking closer at these project areas, expanding in the Caspian region, in particular in Kazakhstan and the existing office in Moscow is necessary (Bos, 2011).

Figure 4.2 Van Oord BV key areas in the future

Source: Van Oord BV Business Development Department, own revision, 2011

5. MARKET ENTRY EXPERIENCES IN RUSSIA

5.1 Introduction

In this chapter, an overview of the experiences of the interview respondents will be given. All the respondents are working at companies in Russia, such as Phillips, G-Nius, DSM, the Atlas service group, and Juralink. Some of the respondents are not represented in the Netherlands, such as AMS group, The Lighthouse group, and Sureline. One interview is held with a professor from the State University of Moscow, who is also an advisor on energy policies for Gazprom and LUKoil. The complete list of the respondents is included in the references. The questionnaires can be found in appendix D. Open interview are an ideal way of getting an integrated view of the current situation. All respondents have a Dutch nationality. One respondent has a Russian nationality. Eleven interviews were conducted. Important is the variety of the respondents; general managers, founders and directors, project managers, a lawyer, and a professor. One of the interviews is held with a large global company, whose identity is anonymous.

This chapter will describe various themes such as risks, do's and don'ts, opportunities, and Moscow's politics. This overview will give a clear picture of the Russian characteristics of doing business.

5.2 Taking Risks

Russia has a historically situated relation with the Netherlands, because Russia associates Dutch entrepreneurs as reliable partners. A multinational enterprise, in this case Van Oord BV, must consider the fact that doing business in Russia implies risks. Russia has an unstable macro- economic situation, an unclear tax system, and a weak financial sector comparing with western countries. The political system is firmly in control with the increasing nationalisation. Once a firm has started activities in Russia, there are fewer costs related to the establishment of the business, but the procedure is longer than in other countries. Russian administration and accounting factors differ from the Dutch one. The legislation and regulations rules change frequently and these are time consuming activities. Considering economical and financial aspects, this country is highly dependent on the oil and gas industry; the small and medium sized enterprises are underdeveloped, and there is no strongly presented middle class. Moscow is now the most expensive city in the world with high costs of living and doing business (Ketting, 2010). A foreign company which starts to operate in Russia will need a local agent to support in the many difficult processes. This agent can function as an advisor and he or she doesn't have to be a partner in the company. This Russian agent can help the foreign company to navigate through the oil and gas industry.

This country is far from being a transparent business partner and the lack of Russian language skills can create miscommunications between the actors. Dutch entrepreneurs are used to an efficient manner of doing business, but must learn to take some time to build trust and relations with their Russian colleagues. Russians appreciate personal relationships, especially in the oil and gas industry. Arjan de Jongste (2011) confirmed in his interview the above described aspects: "*One must not be afraid of doing business in Russia, and giving the full 100%. It is not possible to be successful by just trying to do business in this country. The market is full of risks and to avoid the pitfalls, partnering and networking are the key elements."*

5.3 Do's and don'ts

There is no such a thing as a standard theory of doing business in a foreign country. Doing business in Moscow includes a couple of do's and don'ts. A good start is to understand and respect each other's culture and perspectives. It is important to be informed about the operating country and knowing the basic elements. Language is a critical aspect and knowing the basics is essential. Operating in Russia, especially in Moscow, requires flexibility and patience. It is crucial to remain present on the Russian market and invest in relationships with your business partners. Lodewijk Schlingemann (2011) summarises the main elements as follows: "*To avoid beginner's mistakes, knowing with whom you are dealing and using local advisors is recommended."* Koen Breken (2011) advises to invest in partnering good staff and definitely try to find someone who can be trusted. Operating in Russia requires large investments but it is necessary and unavoidable on the long-term.

One has to accept the complexity of Russia and use it as a challenge. The unknown environment and the underdeveloped state of the Russian economy gives a foreigner new potential to explore. Foreign entrepreneur should not underestimate the market and the Russian business partners, and treat them as equals. Moscow is a world city, but because Russia was isolated from the rest of the world for a long time, they are still behind the Western Europe (Master class doing business in Russia, 2009). Their aversion against the western capitalism resulted in an underdeveloped level of English language in Russia (Master class doing business in Russia, 2009). According to Koen Breken (2011) who is operating for a long time in Russia, the classical pitfall is that western businessmen and companies trust Russians too quickly. Also Lodewijk Schlingemann recommends his clients not to trust Russians from the first sight, even when they speak perfectly English. Jeroen Ketting (2011) describes his opinion in the following sentence: "*One must read Tolstoj or Dostojevski; the situation is still the same as 100 years ago. On the one hand, Russia seems to changes, but on the other hand, due their long isolation, the characteristics of Russia stay the same."*

5.4 Business culture

The differences between western and Russian cultures can be seen during the negotiations. Russian organisational structure is hierarchical and status and rank are important during negotiations. The external appearance is very important and handshakes are not very common at the first meeting. Russians respect skilled people and appreciate a qualified authorities in their area. Entering a negotiation process requires a planned game plan and a clear presentation with a lot of facts and technically advanced material. Russians may go from one agenda item to another without any logical order. It is very important to reserve enough time for the negotiation process because doing business in Russia requires time and patience. During the negotiations, the main aspects to keep in mind are to act fast, be creative in any situation, have patience, and not being surprised to fast.

Building up the trust and having personal relationships are an essential start of doing business in Russia. Their personal opinion will determine whether they will or will not corporate with a potential foreign partner. There is no place for weakness and personal aspects in Russian business culture and negotiation is a power game. They always test the rules and will always search the boundaries to achieve their own goals. Their way of doing business can be characterised by short-time thinking, comparing with the long term vision of the western entrepreneurs (Zaken doen in Rusland, 2010; Breken; de Jongste; Krooshof, 2011).

According to Lodewijk Schlingemann (2011), entering the Russian market and operating in Moscow requires a full knowledge of this country and marketing aspects. Looking at the business to business industry, the structure is top-down, so it is important to speak and operate with the right persons. The businessmen, who are interviewed for this research, confirmed above described aspects for doing business in Moscow. Jeroen Ketting (2011) answered the question concerning the business culture as follows: *"Russians are opportunistic, short term, and impatient. Businessmen of my age, between forty and fifty, survived the crisis of 1998 and that made them strong and very experienced. One must not underestimate them."*

5.5 Maintaining the market position in the oil and gas industry

Entering the Russian market is one thing, holding the position and being able to expand over time is another challenge to cope with.

During the interview with Koen Breken (2011), an important aspect was clearly described: *In order to be taken seriously in the oil and gas industry, one must show themselves in the right places and at the right time (…) In this industry, nationality does not matter, it is a worldwide activity and it is all about the service which you can provide."* In order to enter a market and be successful in the future a company needs to present themselves with a unique product or a product/ service with a great added value for the existing market. A Russian partner must be sure that the foreign client is willing to be physically located on the Russian market. The general manager of a large global company (2011) mentioned in his interview that a service company can only make a chance on a Russian market by operating in a niche market. Doing so, a company serves a small part of profitable market, presenting specific products and services. A foreign company has to distinguish itself from the rest by offering unique services and being technologically strong. The companies' reputation, technology and integrity are very important aspects.

According to Jeroen Ketting (2011), service companies should spend as much time as needed to bind the potential clients and to maintain this relation. In Moscow, there is a large supply in the oil and gas conferences, a service company must attend these conferences and be pro-active. Phillips (2011), which has been operating for about 150 years in Russia, advises to be a part of the exciting operating group of service companies. *"Because it is a transparent industry, with clear actors, one must visit the conferences, go to the chamber of commerce and contact the embassy in Moscow for lobbying and networking. Having a good relation with the embassy of your country will give you a reliable source for networking"* Oil and gas extraction are public works and these kinds of projects are not performed by private companies. Because this industry is transparent and concerns public related projects, media and journal advertisements are not an efficient way to get more publicity.

There is an important aspect which is confirmed by all the respondents: the essence of networking. Marius Krooshof (2011) described it as follows: *"In Moscow, networking is everything. It works with networking and reconnecting. Everything has to do with integrity."* Hans Koeleman (2011), an entrepreneur with a long history in Moscow, explains that doing business with Russian companies is very difficult, if an entrepreneur does not know the right persons. According to him, "*Service companies must visit conferences and be physically present in the acting market. One must ensure respect towards the clients with whom you operate, know them and keep them in control."*

5.6 Opportunities and attractiveness

The size of the Russian market and the challenge of doing business can be reasons for a company or entrepreneurs to start to operate abroad. Moscow is a global city; there is a large international population which makes this city very attractive. There are many West and South European entrepreneurs and offices established in Moscow.

Unattractive sides of the Russian market are also mentioned in the interviews. All the respondents were asked to give a top three main barriers which they faced the most by doing business. The main barriers are the bureaucracy and long procedures. One of the respondents mentioned personnel as the main barrier operating in Moscow. *"The financing and personnel aspects are now not the main problems but in the future, everybody will face this problem."* (Hans Koeleman, 2011). Second ranked barriers are about the legal documents, unclear structure to organize business, and the corruption. The third ranked barriers are the unclear rules and the poor information flow. Corruption may seem as the main barrier, but it is hard to define because bureaucracy shapes the corruption.

The corruption is a commonly used aspect which is mentioned in all interviews. The complex fact is that corruption is hard to define and not always is seen as a barrier. One of the entrepreneurs mentioned that corruption has a broad definition, harmless administrative solutions on the one hand and organised criminality activities on the other. It not easy to identify corruption as it is intertwined with networking and business relations. The more experience, deeper engaged and more success in Russia the respondent had, the lower the score of immediate dangers stemming from organised crime, corruption and general crime. Most of the respondents saw corruption as a logical consequence of ineffective state machinery, combined with the Russian and Soviet historical tradition. The government is seen as a bureaucratic system and reputable MNE's are taking all kind of actions to avoid every type of corruption. Although, there is some frustration on how the administrative subjects are organised, there is also a tendency to accept corruption as one of the many challenges of doing business in Moscow or use it in an innocent way to speed up the processes. Furthermore, the fact that corruption is a common issue in Moscow does not always mean that it occurs more often than previously. The problems with the corruption can be intensified with the media attention in the last decade; issues concerning corruption receive more attention. The respondents mentioned that the Russian bureaucracy differs from the bureaucracies in other countries. Russia has no general organized database; rules differ from town to town. The people who are working for the government are not sufficiently informed, poorly service orientated, and not helpful. The enormous amount of paperwork and all the interactions with governmental institutions are time-consuming due to the bureaucratic powers. One of the main problems is that the governmental staff are not fully informed concerning the laws and regulations and often do not know the difference between a rule and a recommendation.

An attractive aspect of this city is the size of the market, upcoming middle class and their spending habits. According to Andersen (2011), this city ranks seventh on the market saturation and level of competition. Annual retail spending is about 7.619 euro per capita, comparing with the much lower Russian average of 3.571 and the German average spending of 5.600 euro. These figures show also that the city of Moscow is not representative for the average cities in Russia. Another attractive aspect has to do with the unorganized characteristic of Russia. Because not every economic aspect is organized well, there are enough space and market opportunities

for the new entrepreneurs. Local productions continue to be insufficient to meet local demand for consumer goods, equipment, and Russia's demand for the consumer goods and services will continue to growth. Russia's import rates are very high, for example almost 95% of all the medical equipment is imported from the West, technology and innovation needs to improve and diversification of the economy is needed. The existing economy is not mature which causes the lack of experience in some aspects of doing business, such as the underdeveloped middle management (Michailovich, Ketting, de Jongste, Bongard, Koeleman, 2011).

5.7 Moscow and its politics

The intensity of the relation between foreign companies and politics depends on the economic sector, the relationship with the local market, and the size of the company. According to Lodewijk Schrlingemann (2011), there have been some improvements in the last decade, such as jurisdiction concerning the foreign direct investments and the processes concerning the work permits. Also, the procedure of obtaining visa for foreign citizens and the rule of registration have been liberalized. There are even plans to abolish the administration rule for foreign businessmen, professors and exchange students.

Russians do have a lack of trust in domestic politics; they believe that they always will act in their own interest. The Russian policy is only for the Russian companies. Marius Krooshof explained in his interview as follows: *"Russia is 'do everything yourself' and Russian politics is 'you must find it out yourself!'"* Foreigners have to deal with the existing economic situation. As long they are not detrimental to the national matters, the Russian government will not interfere. Koen Breken (2011) describes it as follows: "*The government promise a lot but does nothing. Only a small group receives all the privileges. The rule of law has to change together."* The foreigners will not receive any protection or guaranties from the government once it has to deal with the judiciary.

The last two financial crises showed the world that Russia's economic position is weak and not diverse. To decrease this dependency, policy has to shift in order to increase the innovation and attractiveness level of this country. To improve the level of operating, politics must improve the work conditions for the foreign and domestic investors by developing decent life environment to decrease the countries' brain drain and ease the process of doing business in Russia. The government is willing to improve economic and entrepreneurial conditions, but foreigners have to show that their performance will benefit the domestic situation, by sharing their know-how, technology and using the local labour force (Ketting, de Jongste, 2011).

5.8 Labour market

The labour force shortage is forcing companies to find creative ways to attract and keep blue-collar workers. The markets are growing but there is a deficit of engineers, project managers and highly qualified candidates. According to Miloy and Terentyeva (2011), large companies are abandoning their mentality of cutting costs on personnel by making staff a key resource. The shrinking population and the changing demographic situation are also contributing to the labour shortage. Derk Koole, general director Russia and CIS, mentioned in AEB business quarterly (2011) that the Russian population will decrease with more than 20% by 2050. Also, the number of workers entering the labour market is expected to shrink by 3% over the next five years. Besides that, there are serious concerns about the quality of education in Russia for the next generation of workers, particularly in technical skills. The labour

migration from the former Soviet states cannot solve this shortage because the largest parts of the migrants are not qualified.

Almost all the respondents named the selection of good staff as a difficult and a time consuming activity. Although, Russian staff are complaining less and respect their manager, there are problems concerning the lack of qualifications and the creative approach in their work. The complaints are mainly related to the same business features: the lack of desire to work, "*they can be lazy and sometimes they have no interest to improve their learning skills. They just avoid to make their own decisions or to take responsibilities."* Some of the respondents claimed to hire only female employees because of their higher loyalty and responsibility characteristics. The main conclusion is that staff, partners and distributors require continuous management and leadership.

There is enough potential staff in Russia but the lack of experienced staff is one of the problems. For example, Phillips give trainings and their new personnel has to go through a learning process by doing internal and external courses to get more experience. *"A service company must grow. Companies in the same industry can work together to train specific staff. It is essential to train your own employees, on the long term the potential and qualified staff will appear."* Jeroen Ketting and Derk Koole (2011) mentioned that the Russian population will decrease which will affect the labour force negatively, especially in Moscow. Although the population will decrease, the pull factors of the city of Moscow will remain. This will increase the shift from urban regions towards Moscow city. The question remains if this will cover the needs of the city.

During the 90's, the common policy was to hire expats. Nowadays, it is relatively cheaper to hire local people. Recruitment agencies can be used for selecting the right staff for the right company, although the demand does not correspond with the supply and the problem of high quality staff is still an issue for many foreign companies. A professor and a freelance advisor of Gazprom and LUKoil mentioned Chevron in his interview, one of major oil and gas companies in the world. They developed a programme to monitor the labour market. Each year, the best students in Moscow received a grant to do research on actual themes. By doing this, Chevron controls potential staff by keeping themselves informed. Small companies cannot afford this, but there are opportunities to work together to achieve the same results. These types of internships are becoming popular at the universities and there is even a saying *"Net granta, net aspiranta!"* which means that in order to graduate, one must get an internship.

The general manager of a well-known (2011) mentioned in his interview: *"Although, there are some complications in the Russian labour market, this economy is still growing and foreign entrepreneurs are still operating in Moscow. It is true that the employment strategies are one of the difficult aspects in doing business in Moscow. So, in order to receive good staff performances, you must keep them motivated by being open minded, offer them career opportunities, reward them when things are going well, and not forget to have a personal relation with them.*" The same respondent mentioned that in Russia, average staffs have 50% loyalty towards their manager and 50% loyalty towards the company they work for. This means that the both aspects must be organized well to receive good staff performances.

All respondents mentioned the importance of maintaining the decisions of the company at the level of the founder and the essence of investing in trainings. "*One should definitely invest in their employees. They should have a chance to evolve themselves. To develop the right work atmosphere, managers have to invest time in*

*their employees. "*Lodewijk Schlingemann (2011) particularly mentioned the fact that after the crisis in 1998, most of the expats left Russia and during the recovery it became clear that there were less expats needed than before the crisis.

6. CONCLUSIONS AND RECOMMENDATIONS

Choosing an entry strategy is one of the most vital decisions for a firm. Incorrect choices might have disastrous economic consequences. In order to understand how Van Oord BV can be positioned in the oil and gas industry, for the next five to ten years, an analysis is made of the regions as well as from the industry itself. The regions are Russia and their trade partner Europe. Therefore, I will elaborate on the characteristics of Russia which are relevant for the oil and gas industry. This chapter will end with the main recommendations for Van Oord BV in Russia.

6.1 The Russian role in the global oil and gas industry

Worldwide, there is 3101 bcm natural gas available and Russia has a quarter of the world's total reserves. Yamal is Russian's gas storehouse, contain 20% of global gas production and a large part of world's gas reserves. Looking at the producers of crude oil, Russia takes the first place.

The future energy suppliers for Europe are concentrated around a small number of countries: Russia, the Middle Eastern countries, and the Caspian ex-Soviet countries such as Kazakhstan, Azerbaijan, and Turkmenistan. The natural gas becomes increasingly important in the EU energy mix. Russia is the world biggest gas supplier and has already pipeline connectors to the EU. This will become more important in the future because of a decrease of EU own gas reserves. The future of European gas supply is mainly dependent on the three gas pipeline projects, Nord Stream, South Stream, and Nabucco. Nord Stream, which is planned to be used in October 2012, has two pipelines under construction and Russia is planning to build a third pipeline. The EU is planning to secure and diversify their energy suppliers. The diversification can weaken Russia's position as the EU's dominant supplier. The new opportunities are the Caspian Sea region and the Southern Corridor. The Caspian Sea region contains both oil and natural gas but developing and exploiting this region is not easy. There are also plans to develop the White Stream, a pipeline across the Black Sea. The Southern Corridor and White Stream are supported by the EU Commission because they meet the EU goals for diversification of energy supply routes.

The world gas reserves are sufficient, for at least sixty years of consumption. The worldwide gas consumption will increase in the future. The gas fields, which were easy to exploit, has already been discovered. Developing new fields will become more complicated and will entail additional costs because of the underdeveloped state of the remote regions. As long as there is no other option than oil and gas to satisfy the growing demand, energy will continue to shape the future military, economically and political relations between Russia and Europe.

6.2 PEST- trends in the oil and gas industry for the following five to ten years

6.2.1 Political and economic trends

Post- Soviet political system in Russia remains centralized and shapes a bureaucratic system with time-consuming process and unclear administration rules, such as insurance, bank services, and company registrations. The corruption, which is the consequence of the ineffective state machinery, has a large impact on these administrative matters. The intensity of the relation between a foreign company and

the government depends on the economic sector, the level of the activities, and the size of the company. Van Oord BV has little or no interaction with the government because they have no direct relation with the initiator of the projects. Large oil and gas companies experience significant interference of the Russian government because of the state owned character of this industry. The government could improve the work conditions for the foreign and domestic investors. This could stop the countries' brain drain and ease the processes to do business in Russia.

The recent Russian economy is one-sided, relying on energy resources with the heavy state interface. Putin stressed the predominant role the state has to play in the economic activity by consolidation of state owned fuel sector companies. Kremlin's inner circle of national oil companies, Rozneft, Gazprom, and Transneft, play an important role in the Russian economy by determine the direction of future economic developments. The resource management system in Russia has been weak, in the interest of the recourse companies, but the recent legislations have strengthened the role of the government. Foreign companies have been relegated to a supporting role and state dominated companies, such as Gazprom, haven been able to expand. The reliance on this industry makes Russia vulnerable to the world economic changes. Developing new fields in the remote regions will become more complicated in the future. The government is in the business of financing large scale infrastructure projects to improve the future energy resource industry.

As an industry becomes global, so does its labour market. Important political and economic trends concern the employments aspects, such as job-hopping culture and wage levels, which can affect a multinational enterprise on the long term. Hansson (2009) described human capital as significant for organisations' value creation and profitability. Unfortunately, in difficult financial times, employment investments suffer more often than other investments. Looking closer at the Russian situation, employees perform their job well, are complaining less and respect their manager. Though, the main problem concerning the Russian employees has to do with the lack of creative approach in their work. Other difficult aspects are wages levels, time of notice, English language skills, and the lack of experiences. Moscow has become an expensive city and the wage levels must match the growing level of costs. This force employers to a constantly rise of the wage levels. There are few native Russian who have an advanced level of English. Furthermore, an employee can terminate the employment agreement at any time by providing two week's written notice.

Moscow has a large demand for high and low educated labour force but the decrease of Russian population in the future will have a negative impact on the labour market. Besides that, there are serious concerns about the quality of education in Russia, particularly in technical skills. The recruitment companies can be used to select the right staff for the right company but the demand is not corresponding with the supply. Furthermore, Van Oord BV Netherlands is facing the problem of the aging population and the company has a lack of high skilled engineers and marine educated candidates To retain key staff in Russia, maintaining a strong home land corporate rules is necessary. This will provide the foreign offices in internal focus for the staff.

6.2.2Social and technological trends

Russia is the largest country in the world and inhabits 2.2% of the world population. This country has a large regional variation, comparing the developed Central Federal District and the underdeveloped Far Eastern District. The negative growth rate and the decreased childbirth rate created a gap in the demographic

situation in Russia. The average life expectancy is low and together with the decreased childbirth, this will lead to an imbalanced distribution of the economically active and non-active part of the population. The new economic growth occurred fast and Russia undergoes these economic and social developments only in the last decade. Furthermore, recent years, the government was cutting back in the healthcare, education, and in infrastructure which lead to a social unrest. This fast integration into the world economy has led to a Russia which is shaped by the growing social, ethnic, and cultural diversification.

Russia is far from being a transparent business partner. The Dutch companies have a historic situated relation with Russia which helps them to build a business network. The Russian business structure is hierarchical and the status is important in the negotiation process, which is a time- consuming activity. Understanding these differences will help to avoid misunderstandings.

The economic environment in Moscow changed the last ten years, mainly caused by the communication technology, the increase in the global interconnectedness of economic activities, and the importance of the energy sector. The communication technology created new international information flows which helped Russia to integrate into the world economy. Russia spends about 21.8 billion on research and development (R&D), but the Russian economy is still highly energy resource and foreign knowledge dependent. There is a strong demand for foreign equipment, technology and know-how in the oil and gas industry. Russia scores low on innovations. The new methods of production and other economic related innovations, the logistic market, infrastructure, and technology are underdeveloped. For some world economies, it seems that the future will be shaped by new technologies in conducting business, by video conferencing, satellite linkages, and data processing modes. This will not work for the oil and gas industry in Russia in a short term, where face to face contacts and personal relations are a high priority. In order to decrease the need to move bodies around the world, what is the recent situation at Van Oord BV, a properly planned and co-ordinated of worldwide activities is needed. Also, a mentality change in doing business and technology by the local Russian partners should be necessary on the long term.

6.3 Position of the foreign companies in the oil and gas industry in Moscow

One of the six Van Oord company activities is work filed of the oil and gas industry. This company used offshoring and exported the activities abroad. Moscow is a global city and important because of the concentration of relations in the oil and gas industry. The reason for Van Oord BV to locate in Moscow was to decrease the distance between the receiver and the provider of the services and to increase the network relations. Opening an office was a strategy to improve the operations abroad.

Moscow is an Informational city, as described by Manuel Castells (1989). This city is integrating into the world economy, highly connected with other large economies in the world. Further, Moscow is full of information linkages, intense personal business contacts, and other construction companies. However the banking service is national orientated and protected. This governmental support leads to a low level of international banking activities what affect the international payments flows of foreign companies. Van Oord BV located in Moscow to be the supplier of the knowledge, equipment, experienced staff, the possibilities to operate in different geological regions, and the technical support. Moscow is also an uncertain environment whereby companies have to decide whether to coordinate the activities

through the usual rule in the host country or through an internally planned corporate organisation and decision making system.

Looking at the Russian legal entities, Van Oord BV entered Moscow by using a representing office (RO). This is the simplest form because the tax and visa advantages. This entity requires lower administration costs compared to a legal entity. Van Oord BV implemented OOO (Limited Liability Company) because the situation required a 100% ownership. Since Van Oord BV is not planning to import and produce goods in Russia, OOO entity will satisfy the company's need in the future.

6.4 Market strategies

Van Oord's motives to go abroad and develop activities beyond their borders, is because they are being forced by competition. Also, the demand for their services and the possibility to earn higher profit, play an important role. Van Oord BV is using contractual agreements with a local company in Moscow.

Dunning and Lundan (2008) described that there is a relationship between the organisation structure, the information behaviour, and the location behaviour of the firm. Van Oord BV has taken organisational decisions in line with the location decision. The location decision, the mode of entry, and the industry of entry are closely interconnected. Location is used as a competitive factor for Van Oord BV in Moscow. The reason for entering the market via Moscow is to be able to compete with other construction companies. Moscow, the 'L' component of Dunning's OIL paradigm, can provide opportunities for learning from other leading firms using the international and national knowledge inflows.

A complex aspect is the decision of what types of decision should be made at the corporate level, in the Netherlands, and what responsibility should be made at the local level, in Moscow. Perform according a strong corporate policy is necessary, but integrating in the host country by learning the differences and business behaviour, are the main aspects to perform abroad. The mode of entry for a specific product in a specific country has to be developed. Root (1987) proposes a general model of foreign market entry strategies. Entering a market is contingent upon three groups of variables. Country factors, the first variable, concerns Moscow as the important location in the global gas industry. The target country, the second variable, is about Russia and Van Oord BV as the supplier of the advanced services. The third variable, target country environmental factors, are the aspects which has to be take into account during the process of entering the foreign market as described in the PEST-trends analyse.

Entering the Russian market is one thing, holding the position and be able to increase over time is another challenge to cope with. A marine construction company must show themselves in the right place, on the right time in the main energy conferences worldwide. The oil and gas industry is transparent market and the major actors in the market are well- known. In this industry, the nationality is not important; it's more about the services and the products which a company can provide. Van Oord BV operates in Russian capital because they offer a qualitative product.

Operating in Russia still remains a challenge. Russia has an unstable macro-economic situation, an unclear tax system, and a weak financial sector comparing with West-European countries. The enormous amount of paperwork and the interactions with governmental institutions are time-consuming because of the bureaucratic system. Van Oord BV has to organise the legal entities, the legislation and the administrative procedures, which are changing frequently. If Van Oord BV want to maintain a reliable relation with the Russian partners, understanding and

respecting each other's culture is needed. Knowledge of the language is an essential tool and being flexible is necessary. In the Russian business culture, company's external appearance is important, and they spend more time to build and maintain personal relationships. In order to be able to compete with other construction companies in the Russian oil and gas industry, continue improvements in the technology and equipment are necessary.

6.5 Recommendations

Considering the above described conclusion, recommendations for Van Oord BV for the following years in Russia can be given.

1. Russia has a plan to build a third pipeline in the Nord Stream projects. Van Oord has participated in the construction of the first two pipelines. By emphasizing the company's qualities by and a very active approach can make new construction opportunities possible.

2. The underdeveloped state of the remote regions is a challenge for the future. These regions have large reserves but there is a lack of basic infrastructure. Because of the lack of equipment and technology, Russia will need more foreign companies to be able to produce and exploit the same value of energy as before. Gazprom and the government must agree to invest in countries key infrastructure to improve the future energy resource industry. Looking at Van Oord's other qualities as a dredging company and the Russian need of foreign technology, the governmental investments plans create potential possibilities.

3. Considering the future Caspian Sea opportunities, expanding of the activities, in Kazakhstan, can be a strategic step towards a better competition level of Van Oord BV in Eastern Europe, Russia, and CIS.

4. The corruption, which is the consequence of the ineffective state machinery, is time consuming and has a large impact on the administrative matters, such as insurance, bank account, and company registrations. This situation will not change in the following years. Continuing to outsource these tasks to a Russian partner company is necessary.

5. An efficient way for Van Oord BV to find the right employee is to use the professional network of the existing staff. It is also important for the company to develop strategies to bind qualified staff to the company for the long term through maintaining a strong corporate culture. This will provide in differentiation and internal focus for the staff. By providing training programs, evaluation procedures, and creating future career opportunities will retain the Russian staff.

6. Other possibility can be by recruiting experienced Russian employees and retrain them. Developing professionalism and motivation among employees, offering English courses for the local staff, and building of flexible processes to emphasize the responsibility of the employees will be of a great value for Van Oord BV. Besides, hiring the local people in Moscow will create good-will by the government.

7. Van Oord BV Netherlands is facing the problem of a lack of high skilled engineers and marine educated candidates. This can be partly solved through expand the existing Van Oord Academy to provide the potential candidates in training programs.

8. Van Oord BV must not underestimate the market potential and the Russian business partners. A Dutch employee with a Russian advanced market experience can never replace a native speaking Russian with a large network and experience in the oil and gas industry.

9. Visiting the relevant conferences, networking and be pro-active as a marine construction company are key activities.

10. Van Oord BV in Russia has a potential to become a source of competitive advantage. This can be done through improve their corporate policy and fit between the host country resources, which are natural energy resources, and the firm – specific resources, which are qualitative and unique high service products for the activities in the oil and gas industry.

11. A step forward to meet the future challenges, corporation with a similar Dutch construction company might be one of the possibilities. This so-called strategic international alliance could reduce the weakness and increase competitive strengths. This opportunity can create possibilities for rapid expansion, give access to new technology, decrease marketing costs, and offer solutions for the staffing problem. Analyzing of the corporation possibilities could be relevant for the further research.

REFLECTION ON RESEARCH

Writing this thesis has to obtain a certain quality level. Looking at the validity, it determines whatever or not the research has been able to measure what is supposed to measure. Speaking of an internal validity, the results of this study match the actual reality. In order to achieve that, a huge amount of sources and the other industry related literature are used. External validity concerns the results from a study which can be applied to other situations. This study has no intention to develop a high external validity. However, the findings in this thesis can be used for other companies operating in Moscow. Construct validity evaluates if there has been an objective judgment when collecting data. The theories which are used, suit the needs of this study.

Even though the thesis was written with valid information, there might be some possible sources of errors. It is possible that the findings have been misinterpreted or understand incorrectly during this study. A possible source of error might be the fact that the respondents answer the question in a certain way to be positive about their work or company. Still, the information from the interview is interpreted carefully and the respondents were clear and straight during the discussions. Interviews were conducted with various people involved in the various industries and this resulted in a valuable insight of how to do business in Russia, specifically in Moscow. In the beginning, collecting primary data was complicated. Foreign companies located in Moscow are often managed by the local staff. The Russian companies and entrepreneurs are often internally focused and they are not willing to share their information, so a different approach was needed. A list of all interviews is provided in the references.

This research aims to answer the main question by using two sources of information. These resources are literature and qualitative data from the interviews. A lot of literature was available about the subject. For further research, I would recommend to analyse two topics, namely the new opportunities in Caspian regions and Van Oord’s role in this developments and the corporation with the Dutch or a Belgian marine construction company in order to strengthening their position in the Russian oil and gas industry. Due the lack of time and the planned research scope, I was not able to analyse this during my stay in Moscow. I believe that further research on these topics could be of a great value for the oil and gas industry, for Van Oord BV, and as well for the similar companies who want to operate in Russia and in the Caspian region.

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