



**Kaunas University of Technology**

School of Economics and Business

**Solutions to Overcoming Political Barriers to  
Internationalization: A Case Study of Lithuanian  
Manufacturing Companies in the Russian Market**

Master's Final Degree Project

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**Ramūnas Dekeris**

Project author

**Prof. dr. Jurgita Sekliuckienė**

Supervisor

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**Kaunas, 2021**



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**Prof. habil. dr. Robertas Jucevičius**

Reviewer

---

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Ramūnas Dekeris

# **Solutions to Overcoming Political Barriers to Internationalization: A Case Study of Lithuanian Manufacturing Companies in the Russian Market**

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Dekeris, Ramūnas. Solutions to Overcoming Political Barriers to Internationalization: A Case Study of Lithuanian Manufacturing Companies in the Russian Market. Master's Final Degree Project/supervisor prof. dr. Jurgita Sekliuckienė; School of Economics and Business, Kaunas University of Technology.

Study field and area (study field group): Business, Business and Public Management.

Keywords: internationalization, Lithuanian manufacturing companies, political barriers, Russian market.

Kaunas. 2021, 85 pages.

### **Summary**

The global economy relies on trading and commerce crossing the national borders. Companies seeking to expand cannot limit themselves to their home markets and must pursue internationalization. However, internationalization activities involve a lot of dangers and threats to a company that operates in foreign markets. There are various barriers undermining internationalization that have to be overcome for the company to be successful outside its home market. Political barriers to internationalization play a particularly important role in deciding the outcome of international endeavours undertaken by a company. Consequently, the political environment of the target country must be thoroughly investigated and analysed for internationalization efforts to be effective. Furthermore, geopolitics and diplomatic relations between the home country and the target country also influence internationalization and, therefore, are relevant.

Lithuanian manufacturing companies pursue internationalization in various foreign markets. Nevertheless, problem analysis demonstrates that Russia remains one of the most important countries concerning the internationalization of Lithuanian manufacturing firms. The results of the previous studies confirm that political barriers are critical concerning the outcome of internationalization, although most research in this field does not investigate the Russian market, making an impact of the Russian political environment on Lithuanian manufacturing companies present in this market not well discovered. Consequently, there is a need to find out what are the solutions to political barriers to internationalization experienced by Lithuanian manufacturing companies operating in the Russian market?

The aim of the final degree project is to determine political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market and propose solutions how to overcome these barriers. To reach this aim, the following objectives were defined:

1. To demonstrate the importance of the political environment to Lithuanian manufacturing companies pursuing business activities in the Russian market.
2. Provide a theoretical overview of the political barriers to internationalization in the Russian market and solutions to overcoming them.
3. To propose the research methodology for evaluating political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market.
4. To conduct empirical research of political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market and propose solutions for overcoming these barriers.

A systematic literature review was conducted to determine political barriers to internationalization and possible solutions to overcome them. A qualitative research strategy was chosen for this study. Five interviews were conducted with representatives of three Lithuanian companies pursuing

internationalization in the Russian market and the two experts on the Russian political environment. Interviews were analysed using software MAXQDA which enabled to single out the most relevant political barriers to internationalization in the Russian market. The results have revealed that the Russian political environment is unfavourable to Lithuanian manufacturing companies pursuing internationalization in this country. Moreover, it was determined that geopolitics and diplomatic relations between Russia and Lithuania is an important factor regarding the internationalization of Lithuanian manufacturing companies in the Russian market. Based on these findings, several solutions both to Lithuanian manufacturing companies and Lithuanian political institutions were put forward. These solutions were divided into macro and micro parts. Micro solutions are suggested to companies themselves and are within their power to implement. Macro solutions are offered to Lithuanian governmental institutions since their implementation requires actions taken on the state level. The intended goal of the macro solutions is to make the Russian political environment more favourable to the Lithuanian manufacturing companies, while micro solutions focus on companies overcoming political barriers to internationalization independently.

Dekeris, Ramūnas. Politinių barjerų internacionalizacijai įveikimo sprendimai: Lietuvos gamybinių įmonių Rusijos rinkoje atvejo analizė. Magistro studijų baigiamasis projektas. Vadovė prof. dr. Jurgita Sekliuckienė; Kauno technologijos universitetas, Ekonomikos ir verslo fakultetas.

Studijų kryptis ir sritis (studijų kryptių grupė): Verslas, Verslas ir viešoji vadyba.

Reikšminiai žodžiai: internacionalizacija, Lietuvos gamybinės įmonės, politiniai barjerai, Rusijos rinka.

Kaunas, 2021, 85 p.

## Santrauka

Globalios ekonomikos pagrindas yra tarptautinė prekyba. Verslo kompanijos siekiančios plėtos negali apsiriboti vietinė rinka ir privalo vykdyti internacionalizaciją. Tai sukelia daugelį pavojų bei grėsmių kompanijai, vystančiai veiklą užsienio rinkose. Tam, kad internacionalizacija būtų sėkminga kompanija turi įveikti įvairius barjerus. Vieni svarbiausių barjerų internacionalizacijai yra politiniai barjerai, susiję bei kylantys iš valstybės, kurioje vykdoma internacionalizacija, politinė aplinkos. Todėl siekiant sėkmingos internacionalizacijos, politinė aplinka užsienio valstybės, kurioje kompanija siekia įsitvirtinti, turi būti ištirta bei išnagrinėta. Dar vienas veiksnys, prisidedantis prie politinių barjerų atsiradimo yra geopolitika ir tarpvalstybiniai santykiai. Suprastėję diplomatiniai santykiai gali pabloginti sąlygas internacionalizacijai.

Lietuvos gamybinės įmonės vysto internacionalizaciją įvairiose užsienio rinkose, tačiau probleminė analizė parodė, jog Rusijos rinka išlieka nepaprastai svarbia ir aktualia. Kitų tyrimų rezultatai patvirtino, jog politiniai barjerai yra kritiškai svarbūs internacionalizacijos rezultatams, bet yra mažai studijų kurios tirtų politinius barjerus internacionalizacijai Rusijos rinkoje. Todėl Rusijos politinės aplinkos poveikis Lietuvos gamybinėms įmonėms nėra plačiai išnagrinėtas. Atitinkamai, svarbu išsiaiškinti kokie yra politiniai barjerai Rusijos rinkoje ir kaip Lietuvos gamybinės įmonės galėtų juos įveikti?

Šio tyrimo tikslas yra nustatyti politinius barjerus internacionalizacijai, su kuriais susiduria Lietuvos gamybinės įmonės Rusijos rinkoje bei pasiūlyti šių barjerų įveikimo sprendimus. Šiam tikslui pasiekti yra numatyti uždaviniai:

1. Parodyti Rusijos politinės aplinkos svarbą Lietuvos gamybinių įmonių internacionalizacijai Rusijos rinkoje.
2. Pristatyti teorinę politinių barjerų internacionalizacijai ir Rusijos politinės aplinkos analizę, bei teorinius politinių barjerų įveikimo sprendimus.
3. Pateikti tyrimo metodologiją skirtą nustatyti politinius barjerus internacionalizacijai, su kuriais susiduria Lietuvos gamybinės įmonės vykdančios veiklą Rusijos rinkoje.
4. Atlikti empirinį politinių barjerų internacionalizacijai Rusijos rinkoje tyrimą bei pasiūlyti šių barjerų įveikimo sprendimus.

Sisteminė akademinės literatūros apžvalga buvo atlikta siekiant nustatyti politinius barjerus internacionalizacijai bei pasiūlyti šių barjerų sprendimus. Šiame magistro baigiamajame projekte buvo pasirinkta kokybinio tyrimo strategija. Buvo atlikti penki interviu. Trys interviu buvo atlikti su Lietuvos gamybinių įmonių, vykdančių internacionalizaciją Rusijos rinkoje, atstovais. Dar du interviu buvo atlikti su ekspertais, kurių profesinė veikla susijusi su Lietuvos ir Rusijos ekonominiais bei politiniais santykiais. Interviu buvo analizuojami naudojantis programine įranga MAXQDA. Tai leido nustatyti pačius aktualiausius ir svarbiausius politinius barjerus internacionalizacijai Rusijos

rinkoje. Tyrimo rezultatai atskleidė, jog Rusijos politinė aplinka nėra palanki Lietuvos gamybinių įmonių internacionalizacijai. Taip pat, buvo pastebėta, jog geopolitika ir diplomatiniai Rusijos bei Lietuvos santykiai yra svarbus faktorius, lemiantis Lietuvos gamybinių įmonių internacionalizacijos Rusijos rinkoje sėkmę. Remiantis šiais rezultatais, buvo pasiūlyti politinių barjerų internacionalizacijai Rusijoje įveikimo sprendimai. Šie sprendimai buvo išskirti į macro ir micro dalis. Micro sprendimai yra siūlomi Lietuvos gamybinėms įmonėms veikiančios Rusijos rinkoje. Šie sprendimai gali būti pritaikomi pačių įmonių pastangomis ir nereikalauja platesnės intervencijos. Macro sprendimai yra pateikiami Lietuvos politinėms institucijoms, nes jų įgyvendinimas galimas tik valstybiniu lygiu. Šių sprendimų tikslas yra ne atskirų politinių barjerų įveikimas pačių gamybinių kompanijų pastangomis, bet geresnių politinės aplinkos sąlygų Lietuvos verslo įmonėms sudarymas Rusijoje.

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## Introduction

The importance of the Russian market for Lithuanian companies was highlighted by the embargo enacted by the Russian government in 2014 against certain sectors of Lithuanian exporting firms (Krasauskaite, 2015). Sanctions banning Lithuanian companies from operating in the Russian market demonstrated the importance of political barriers for internationalization in this specific market (Belin, Hanousek, 2021). Furthermore, it demonstrated that the political environment in Russia significantly influences the success of foreign companies present in this country (Becker and Vasileva, 2017). Therefore, the question arises, what actions could Lithuanian companies take to be more effective in overcoming political barriers to internationalization in the Russian market? There are some discussions about political barriers to internationalization in Russia, but some of them focus exclusively on a single product that is exported to Russia like dairy foods (Eitkeviciute, 2015) or investigate general economic relations between Lithuanian and Russia without exploring political barriers to internationalization specifically (Briuskova, 2013). Moreover, some studies highlight the importance of political economy regarding entry barriers to the foreign market (Mukoyama, Popov, 2014) and the relevance of political environment to the outcome of internationalization (Duran et. al., 2016). However, there is scarce research on the topic of political barriers to internationalization in the Russian market concerning Lithuanian manufacturing companies.

Thus, **the research question** is “What are the solutions to political barriers to internationalization experienced by Lithuanian manufacturing companies operating in the Russian market?” To answer this question several aspects of the political environment in Russia and its influence regarding Lithuanian companies operating within this market will be presented and analysed.

**Aim of the final degree project.** To determine political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market and propose solutions how to overcome these barriers. To reach this aim, the following **objectives** were defined:

1. To demonstrate the importance of the political environment to Lithuanian manufacturing companies pursuing business activities in the Russian market.
2. Provide a theoretical overview of the political barriers to internationalization in the Russian market and solutions to overcoming them.
3. To propose the research methodology for evaluating political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market.
4. To conduct empirical research of political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market and propose solutions for overcoming these barriers.

**Methods of the research.** *Systematic literature review*, as well as comparative analysis, was used to determine what barriers to internationalization are present and provide a detailed analysis of their interrelation. Moreover, research literature investigating political barriers was summarised and put forward to better understand the relevance of the political barriers to internationalization. Furthermore, *qualitative research* was conducted based on interviews with several Lithuanian companies that operating in the Russian market. Interviews were conducted with various manufacturing companies that produce different goods ranging from food products to building materials. Interviews had open questions to gather as much relevant information on the topic as possible which were analysed later to answer the research question and achieve the aim of this master thesis. Additionally, *expert analysis* was employed to provide research with supplementary expertise. Two experts that are familiar with the Russian political environment and the internationalization of Lithuanian manufacturing companies were interviewed.

**Structure of the research.** This master's degree final project starts with describing the problem analysis to highlight the relevance of Lithuanian companies' internationalization in Russia and provide a context of the Russian political environment and a brief history of changes that occurred in that country in the last several decades. Secondly, the theoretical framework provided insights into barriers to internationalization in accordance with the research conducted by academic papers analysing this subject. Thirdly, the methodological part of this thesis proposed instruments of data collection and gathering to provide methods of how to best evaluate information gathered to achieve the aim of this research paper. Lastly, outcomes of the empirical research are provided, discussed, and examined with potential solutions to the problem of overcoming the political barriers to internationalization proposed. This master thesis consists of 99 pages, there were 5 figures and 17 tables presented.

**Results.** To carry out the objectives of this master's degree final project problem analysis of Lithuanian manufacturing companies in the Russian market was presented and a theoretical framework of political barriers to internationalization was put forward. Additionally, the research design and instrument were described in the methodology part. Five interviews were carried out to gather information for empirical research. Consequently, data collected was examined, discussed and solutions to the problem of this master thesis was suggested.

Restrictions of the research were extensively described in the research methodology part. The main restriction of the research is a relatively limited number of participants. Therefore, any solutions presented to overcome political barriers to internationalization in the Russian market apply only to analysed companies due to the insubstantial numbers of participants in this research.

## **1. Problem Analysis**

Lithuanian manufacturing companies pursuing internationalization in Russia inevitably faces several political barriers. These political barriers arise from the Russian political environment. Several specific features of the Russian political environment pose a threat to the internationalization of Lithuanian manufacturing companies in the Russian market. First, the Russian market is known for corruptions and interference of politicians in economic affairs (Sidorkin and Vorobyev, 2018). Moreover, it has been concluded that foreign firms active in the Russian market experience a higher degree of corruption than local Russian companies. This is especially true to Lithuanian companies that pursue internationalization in the Russian market (Eitkeviciute, 2015). Furthermore, due to specific geopolitical circumstances and diplomatic relations, Lithuanian manufacturing companies in Russia face political barriers that are unique and cannot be identified without detailed investigation. For example, Lithuanian companies operating in Russia are often penalized or undermined for arguable reasons. It is widely assumed that this political barrier arises from complicated relations between Russia and Lithuania. Additionally, Lithuanian manufacturing companies experience other political barriers to internationalization in the Russian market. They have to adapt to complicated and difficult legislative code that changes often. Moreover, Russian political institutions are weak and not reliable. They tend to be influenced by local politicians (Becker and Vasileva, 2017). This influence leads to unfair advantages being provided to Russian national companies at the expense of foreign companies. Therefore, Lithuanian manufacturing companies that pursue internationalization in Russia have to deal with favouritism and actions of the local political institutions that are detrimental and threatening. Furthermore, the Russian political environment is generally not welcoming to investors since it is widely believed that home companies should be supported and promoted. Therefore, protectionism is an important political barrier that must be addressed to achieve a positive outcome of internationalization in Russia. Lastly, it is necessary to mention that a major barrier to internationalization in Russia is a lack of clear and constant rules that would be applied to all players in the market similarly. On the contrary, due to the nature of the political environment in Russia, some companies are promoted and others must overcome political barriers to internationalization or perish. Relations between the Russian political environment and political barriers in the Russian market are further discussed in the following part of the problem analysis.

Additionally, it must be noted, that Lithuanian companies operating in the Russian market are in a difficult position to overcome political barriers to internationalization. Since the Russian political environment tends to be volatile and experience many changes (Sidorkin and Vorobyev, 2018), there cannot be one clear solution to overcoming political barriers to internationalization. Consequently, companies active in Russia have to adapt the flexible strategy. However, to do that, it is necessary to understand the Russian political environment and its development. It is also crucial to identify what specific barriers exist in the Russian market to propose solutions on how to best overcome them. To accomplish this, an overview of the Russian political environment and political barriers to internationalization in Russia will be provided.

### **1.1. Barriers to Internationalization and the Russian Political Environment**

At the beginning of the 1990s, Russia has undertaken remarkable measures to introduce free-market reforms by privatising factories and appropriating state assets, bureaucratic institutional control gave way to private enterprises (Becker and Vasileva, 2017). Original idea was to bring Russia closer to classical liberalism as defined by Anglo-Saxon political economies with the market dictating all

questions of economy and with intrusion from the state being brought to an absolute minimum, apart from providing security and basic regulations. Such transition was presented as a failure of a socialist system before a more effective and advantageous political economy of liberalism. Series of policies were implemented, to make sure all citizens were part of this transition to a capitalist economy such as 'loans-for-shares' programs where workers of various factories were given shares of their privatised enterprise. In theory, this had to ensure the privatization process was more or less equal and everyone was presented with a possibility to participate in a new liberal system with reasonably equal opportunities. Nevertheless, proposed liberalism in economy and politics either never materialised into reality or was extremely short-lived as the only ones who benefited from privatization were Soviet enterprise directors, Communist party members and newly emerged Russian bankers. These people managed to monopolise previously state-owned property by using political power and connections they had. As privatisation and liberalization of the economy progressed further newly established oligarchs with access to Russian president Yeltsin who succeeded Gorbachev managed to capture even more of the state assets. In exchange, Yeltsin received their support in the 1996 presidential election that he would have lost on his own merits. Newly beholden to this extremely rich new Russian business class Yeltsin had to offer them political decision power and, in essence, give up on conjuring supposedly free-market capitalism within Russia: "contrary to the intentions of the reformers, Russia's privatization program did not create a full-fledged liberal market economy but rather implied two waves of patrimonial asset appropriation by well-connected insiders in the context of a weak state" (Becker and Vasileva, 2017, p. 89). As a result, instead of desired liberal political and economic system, Russia turned into a patrimonial state which is more similar to the political economies of Asia, Africa and South America than to the intended outcome of North-Western European states. Therefore, free-market reforms and the intention to turn Russia into a more liberal and capitalistic society based on a set of principles rooted in rule of law and laissez-faire economy was a complete failure. Instead, Russia returned to a society based on patrimonialism. The authors of the article defined patrimonialism as patron-client relations between political and economic actors in power, which then trickles down the entire social fabric of society. In such a system, the government carries out policy in accordance with the wishes of certain privileged ruling groups with the ability to influence decision making. Moreover, the whole economy in a patrimonial state usually depends heavily on the extraction of natural resources, that are used to support the rent-seeking elite in political power and their subordinates in the business world, in this way establishing the principle of patronage throughout all society (Becker and Vasileva, 2017). Patrimonialism is the complete antithesis of liberalism as it undermines collective good and economic progress, sacrificing that to the benefit of certain special interest groups that had managed to capture state apparatus. Patrimonialism also differs from the statist political and economic system by its goals and aims. For example, a statist form of governance promotes what it sees as universal interests of a given country by influencing and even meddling in the economy and restricting political liberties. In such a system, the state thinks that it knows what is best for the greater good. State-owned firms are promoted in the economy, decision making is highly hierarchical, and the rights of labour unions are curtailed. However, unlike the patrimonial system, statism does not operate with a mindset and goal of enriching a small subset of the elite at the expense of the rest of the public. On the contrary, it espouses notions of sacrificing individual liberty to the common good as means to achieve prosperity for everyone and acts as a unifying force as opposed to a patrimonial system that subverts the interest of many to the advantage of a few and in this manner subverts national unity in society (Becker and Vasileva, 2017).

It has been a subject of great debate within the academic community whether Russia's political and economic system is more akin to a patrimonial or statist one. Historic experience suggests that patrimonialism goes back to the foundations of Russian statehood since it was primarily based on authoritarian rule, absence of private property and social fabric based on client-patron relations. For instance, the Russian Tsar was given possession of all Russia and nobility were granted his land and title in exchange for loyalty and obedience. This clientelistic principle extended into a socialist system as a communist state controlled all significant property and gave its management to nomenklatura – holders of crucial administrative posts, whose appointment had to be sanctioned by the ruling Communist party and therefore signified patronage. As noticed by the authors of the study, these patrimonial tendencies subverted efforts of liberalization in the 1990s. Furthermore, patrimonialism also hindered Russia's embrace of statism in the 2000s under newly brought to power president Putin. Several notable statist policies of the Russian government in the 2000s – bolstering the state institutions and nationalization of strategic economic sections were damaged and sabotaged by established patronage of the state and business actors, even though those policies would have been advantageous to the economy of Russia (Becker and Vasileva, 2017). These contrary goals of statist strengthening of the state and patrimonial enriching of ruling elites have been at odds with each other for the last few decades of Russia's political development. On one hand, the newly emerged class of former soviet security agencies operators known as 'siloviki' were awarded positions on corporate boards of state firms in return for their loyalty to the ruling regime with ample opportunities to establish lucrative rents for themselves. On the other hand, Putin's administration undertook major statist policy to nationalize all prominent and central industries and put them in control of government to increase Russian national influence and economic power ostensibly for the greater good. This conflict between patrimony and statism manifests throughout the Russian economy, politics and is part of the social fabric. For instance, government officials often use regulations to extract money from local entrepreneurs through extortion, especially during tax inspections. Furthermore, business ventures in Russia are often forced to bribe public officials to receive permission to operate or to cooperate with chosen firms that are owned by politician's family members. These occurrences speak of patrimonial relations between political and economic actor with Russian and are revealing setbacks to governments statist aims. All in all, Russia's political economy since Putin took over has been marked by extensive efforts by the government to introduce statism reforms while being undermined by patrimonialism deeply entrenched in a structure of social fabric: "development of Russia's political economy in the 2000s implied a very specific turn toward coercive statism blended with patrimonialism" (Becker and Vasileva, 2017, p. 90). Any research on the topic of internationalization to Russia must take into account this unique aspect of the Russian political and economic system. In addition to that, evaluation of entry to the foreign market and possible barriers to be overcome must be measured by the various types of factors that are expected to be found in a foreign market. The totality of these factors constitutes different environments that should be analysed to understand the process of internationalization (Annushkina and Regazzo, 2020). This specific study describing Russia's development and political economy helps to achieve a better comprehension of what a firm expanding to Russian markets might face as it provides an investigation of how the Russian capitalism system changed since the fall of the Soviet Union. Moreover, it highlights the political-economic nature of the Russian state and how the transitions of different leaders (Gorbachev to Yeltsin to Putin) affected the Russian political environment. The article shows how attempted liberalization failed and reverted to patrimonialism with the recent endeavour of Putin to introduce statist reforms to prop up the economic power of the country. It also demonstrates that actions taken by the Putin government

resulted in a blended patrimonial-statist dichotomy that continues to this day to shape the Russian political environment which influences local and foreign companies present in Russia.

Furthermore, this study provides relevant information regarding the political environment in Russia which is crucial for any research on internationalization. It demonstrates that in the years since the 2000s government became more effective, particularly in a coercive manner, however, its regulatory attributes remained weak and subjected to the will of ill-equipped and ill-willed political figures (Becker and Vasileva, 2017). Additionally, even though liberal policies tried to introduce a clear, permanent and comprehensive rule of law that could create a basis for economic activity including internationalization those efforts were largely unsuccessful and Russia returned to a familiar, old fashioned pattern of patron-client relations regarding the political economy. Therefore, any business ventures seeking to enter the Russian market will doubtlessly encounter major obstacles in the political environment full of preferential treatment based on personal relations, hostility to new players in the market without ties to decision-makers in the government, a complex web of corruption and other signs of patrimonial political economy. In addition to the already convoluted Russian political environment, any Lithuanian company seeking to pursue internationalization in its eastern neighbour will have to deal with strained relations between the two countries due to complicated geopolitical issues. There is no doubt that this will add another dimension that could bring unique challenges to expansion into the Russian market regardless of products or services provided by the company. Moreover, as have been described in this problem analysis before, Lithuania has followed a completely different development to that of Russia as it was more successful in breaking away from patrimonial traditions and customs that dominate the Russian political environment and integrate into western organizations such as European Union (EU), which promoted more liberal tendencies in economy and politics. Therefore, this master thesis and research carried out will have to find out what role do external factors, ideological and geopolitical contradictions, competing political worldviews, different interpretations of history and perhaps even personal relations play in terms of overcoming political barriers to internationalization by Lithuanian companies seeking to enter the Russian market.

## **1.2 Importance of the Russian Market to the Lithuanian Manufacturing Companies**

Lithuanian companies seeking to enter and be successful in the Russian market will be analysed for several reasons. Relevance of this issue is highlighted by the fact that Russian is the most importing trading partner of Lithuania and a lot of companies depend on a positive and cordial relationship between the two states. According to the Observatory of Economic Complexity data, Russia accounted for 13.3 % of Lithuanian manufactured goods exports in 2018. Similarly, Russia remains a most important trading partner of Lithuanian private enterprises when it comes to imported goods as well. Klaipeda port relies heavily on Russian oil, gas and other raw materials being transported via its facilities. A lot of private Lithuanian enterprises that export or import to Russia finance the Lithuanian state by taxation and create employment for Lithuanian citizens. Therefore, it is undeniable that economic internationalization pursued by private enterprises regarding trading and working within the Russian market has a substantial impact on the Lithuanian state and can be used as leverage in a geopolitical tug of war to advance interests of Russian that are deemed from negative to completely antagonistic to the geopolitical strategy of Lithuania. As a result, both Lithuanian society and political parties must face a dilemma and a choice between maintaining beneficial and friendly relations with a Russian state to benefit private enterprises or sacrifice economic interests in exchange for potential geopolitical goals. This dilemma creates a vigorous debate as to what should



Lithuanian political stance be concerning companies that rely on Russian commerce and market. This debate has many competing arguments coming from various political parties that have a diverse range of opinions on Russia and foreign relations of Lithuania, private enterprises that rely on these relations and ordinary citizens that participate in the democratic process. Therefore, this topic is relevant not only in terms of individual companies seeking to enter the Russian market but also has broader implications on the Lithuanian state and society as a whole, since failure or success of these companies can have negative (or positive) affect not only on their results but on the rest of their home country as well. Therefore, due to peculiar circumstances surrounding geopolitical realities, the internationalization of Lithuanian companies to Russian markets is a subject important not only as merely economic analysis but also in term of politics both in Russia and Lithuania.

The importance of the topic of this master thesis is further highlighted by data concerning Lithuanian export to Russia. Even though the share of Lithuanian export to the Russian market dropped significantly since Lithuania joined European Union, Russia remains the most important trading partner of Lithuanian companies with Lithuanian exports to Russia in the year 2019 being valued at 4.14 billion Euros according to the data provided by Lithuanian Foreign Ministry. Additionally, this number was 4.6 % higher in comparison to the year 2018. According to the Lithuanian Statistics Departments, most Lithuanian exports to Russia are Mechanical installations (11.8 %), food products and various beverages (9.1 %), goods related to the chemical industry. However, the importance of the Russian market to Lithuanian manufacturing companies and the broader economy of the country is not only reflected in the statistical data but attitude and stance of both political and business leaders. For example, in 2018 Lithuanian Prime Minister Saulius Skvernelis commented about the necessity to improve relations with Russian to create more positive conditions for Lithuanian business companies that manufacture goods designed to be exported to the Russian market. Such statements were met by a wave of criticism coming from both opponents of the Prime Minister and party colleagues alike. The Prime minister was accused of selling out Lithuanian national interests in the name of economic benefit and prosperity. Even though Prime Minister Skvernelis was quick to clarify his previous comments regarding political relations between the two countries and the internationalization of Lithuanian companies to Russia it is undeniable that the success of the aforementioned Lithuanian companies to a high degree depends on actions taken by the Russian government and political environment found in that country. For instance, in 2014 Chief executive officer of the company “Šiaures Vilkas” Vilius Kaikaris in a Television interview regarding the export of his companies’ products to Russia was very critical of the influence of Lithuanian politicians on the internationalization of his firm. According to him, the actions of the Lithuanian government has made it considerably more difficult to pursue the successful internationalization of his company in the Russian market. Vilius Kaikaris also maintained that his attitude is not uncommon among Lithuanian businessmen who similar to him are invested in Russia. Activities of his company “Šiaures Vilkas” mainly concerns grain export to Russia. Even though there were not any more public complaints of difficulties experienced by Lithuanian companies pursuing internationalization in Russia, this topic remains significant and relevant within the Lithuanian academic and business community. Therefore, it is necessary to investigate what political barriers exist for Lithuanian manufacturing companies in the Russian market. Moreover, it is important to analyse the current Russian political environment and how it affects Lithuanian companies pursuing internationalization in the Russian market. These aspects of Lithuanian manufacturing companies’ activities outside of the Lithuanian home market are critical since the Russian market cannot be ignored or abandoned due to previously mentioned reasons. Regardless of the complicated geopolitical situation and volatile

Russian political environment, it is undeniable that the Russian market is relevant to Lithuanian companies. The importance of Lithuanian companies' internationalization to Russia is also manifested in figure 1 which demonstrates how the size of export from Lithuanian to Russia changed over time according to the data of the Lithuanian Department of Statistics. The horizontal axis denotes the time from 1995 to 2020, while the vertical axis signifies the size of Lithuanian exports to Russia each year by millions. Data presented in figure 1 reveals the importance of the Russian market to the Lithuanian companies that export their products abroad.



**Figure 1.** Lithuanian export to Russia since 1995

According to the data provided, it can be deduced that Lithuanian exports to Russia tend to experience unexpected and sharp declines. Charts demonstrated that Lithuanian exports to Russia dropped significantly in 2009 and 2014 and then managed to improve on a steady basis. It was likely influenced by an external event such as the global financial crisis in 2007 – 2008 and geopolitical disagreements of Russian actions in Ukraine that have led to sanctions which might have negatively affected Lithuanian companies pursuing internationalization in Russia. However, such a macro approach of internationalization is not enough to comprehend the challenges Lithuanian manufacturing companies face in their efforts to be successful in the Russian market. Additional research is needed that would rely not only on the broad global data but also take into account micro details concerning experiences and challenges Lithuanian companies encounter when trying to overcome political barriers to internationalization in the Russian market. Moreover, it is necessary to investigate whether the success of Lithuanian manufacturing companies operating in Russia depends largely on the actions taken by the Lithuanian government and its stance towards Russia or is it possible for Lithuanian companies to pursue effective internationalization irrespective of that by dealing with political barriers in the Russian market on their own. More empirical research is needed for these questions to be definitively answered and solutions provided.

## **2. Theoretical Solutions of Overcoming Barriers to Internationalization**

The role of internationalization in business development has been thoroughly investigated by the academic community. It is a crucial factor in the results company achieves and overcoming possible barriers to internationalization is an important aspect of company strategy. Therefore, different concepts and review of academic literature is presented to illustrate existing solutions to the problem of barriers to internationalization.

### **2.1. Conception of Barriers to Internationalization**

Commercial activity between different countries has been a very important aspect of human civilization influencing trade, politics, diplomacy and world history generally (Samiee, Leonidau & Aykol, 2014). However, to sell their products in a foreign country company must overcome a series of obstacles and challenges. Annushkina and Regazzo defined those challenges as barriers of entry and analysed possible barriers a company might face when expanding to a foreign market as an outsider: “Being an outsider to a network is one of the major obstacles to growth in an international market”. This position of an outsider is named as a “liability of outsidership” (Vahlne, et al., 2012). Companies experience this liability as they seek to expand to a particular foreign market. Barriers of entry to the foreign market are henceforth named by Annushkina and Regazzo as “The process of your firm’s evolution from an outsider to an insider“. This transition from an outsider who is not a part of a given market to an active agent in that market and the obstacles company encounters in the process can be broadly summarised as barriers to enter a foreign market. These barriers are part of any internationalization process. Academic literature analysing possible barriers to internationalization distinguishes several types of barriers which will be reviewed in the theoretical solution part of this paper. However, political barriers to enter a foreign market remain an important element deciding the success or failure of internationalization (Samiee, Leonidau & Aykol, 2014).

Over the past decades, there has been a lot of discussion and arguments over different definitions of the concept “barrier to enter a foreign market”. Analysing the extensive amount of literature, it is possible to separate several perspectives: “one of the industrial organization or structural management and the other of the strategic management” (Couto, Barbosa, 2020, p. 56). These perspectives take different and competing views concerning defining barriers of entry to the foreign market. “The industrial organization perspective focuses on industry as the unit of analysis, studying mainly their structural characteristics and firms’ reactions to them” (Couto, Barbosa, 2020, p. 56). This view highlights the importance of macro factors of a certain industry related to conditions already present in a foreign market such as “functioning and efficient state institutions and weak legal law-enforcement structures” and “foreign market’s potential level of risk, level of competition intensity and accessibility” (Annushkina, Regazzo, 2020, p. 83). According to the Annushkina and Regazzo company entering a foreign market will have to face challenges that are largely out of its control and possibility to change. Therefore “entry to the foreign market will be influenced by the average size of potential partners or targets for acquisitions, or joint venture partners operating in a foreign market, as well as the availability of foreign partners” (Annushkina, Regazzo, 2020, p. 91). Additionally, such a position stresses foreign market risk as a key factor determining barriers of entry to a foreign market. These barriers are entirely influenced and raised by conditions stemming from a target country internal economic, political, cultural and social character. For example, Annushkina and A Regazzo in their article Entry Modes: How to Enter a foreign market (2020, p. 92) states: “level of foreign market risk in your chosen country of entry can influence your entry mode selection. This refers to

non-competitive factors such as political and macroeconomic instability, lack of institutions and cultural and ethnic tensions that can negatively influence the stability of business”. Lastly, barriers of entry to a foreign market from the industrial organization perspective can be defined as “foreign market’s distance both in terms of *culture, legislative, and political* (legislative) environment, the level of economic development, together with physical distance from your domestic market” (Annushkina, Regazzo, 2020, p. 93). This point of views highlights that barriers of entry to a foreign market are best defined by how much this specific foreign market is divergent from a market company operates at a present moment. According to this definition, the bigger the distance between two markets the more challenging entry to a foreign market. The distance here is to be understood not only as a “spatial transaction costs” (Annushkina, Regazzo, 2020, p. 93) but also as a liability of outsidership that will be explored and investigated more thoroughly in the other parts of theoretical aspects of this thesis.

Strategic management definition of barriers to enter a foreign market “focuses mainly on the firm itself and what it can do to maintain or increase its profitability.” (Couto, Barbosa, 2020, p. 56). Therefore, strategic management definition relies on microeconomic factors and analyses specific decisions and actions undertaken by a given company in order to overcome barriers when expanding to a foreign market: “behaviour issues are the key topics for the industry analysis” (Couto, Barbosa, 2020, p. 56). This view emphasizes company choices and policies independent of structural management or industrial organisation. It asserts that leadership of a given company that seeks to expand to a foreign market is a crucial factor in success or failure of such undertaking: “the composition of firm’s top management team plays a decisive role in the choice of entry mode – strategic decisions are made by people, entrepreneurs, and managers” (Annushkina, Regazzo, 2020, p. 90). According to this definition company internal resources and capabilities are more important to the expansion to a foreign market rather than conditions already present in that particular foreign market in accordance to structural view of barriers of entry: “past functional experiences of top managers in certain areas (for example, previous positions held in accounting, operations, R & D), and long years of tenure in top positions favour the selection of entry modes” (Annushkina, Regazzo, 2020, p. 90).

Furthermore, the structural management definition of barriers of entry to the foreign market draws attention to the actions and steps taken by a company to create networking potential in a foreign market to be entered. It maintains that there are certain structural advantages of creating and maintaining long-lasting relations with counterparts in a foreign market to subdue barriers when entering it. Ozcan, Mondragon and Harindranath in their research article which explored strategic entry to the foreign market and operation integration of emerging market multinational enterprises (EMNESs) through an analysis of Mexico’s Cemex, Turkey’s Beko and India’s Tata Steel in the UK provides a case study of Beko entrance to UK market. The article explains that Beko has built a series of long-lasting relationships with UK retailers and distributors. The company gathers forecasts from retailers and distributors and provides information to management in Turkey to plan a production schedule. This allows Beko to have a very specific production capacity which as well as to deliver the necessary number of units to the retailers in the UK. Such structural management measures to deal with barriers of entry to a foreign market brought tangible positive results to Beko in its goal to expand to the United Kingdom home appliances market as opposed to markets in other European countries: “Compared to its brand acquisitions in Germany and Austria, where it has no significant market base, Beko built extensive ownership advantages in the UK by developing long-term

relationships with retailers (Ozcan, Mondragon, Harindranath, 2018, p. 251). Nonetheless, it is important to note that structural management encounters limitations and shortcomings when it is not supported by local partners and structural assistance already present in a foreign market. Companies that fail to take into account strategic management of barriers that are particular to the foreign market they want to enter usually encounter issues related to integration related to logistics network, supply chain and business conditions arising from political and legal systems. For example, a previously mentioned case study of Beko, Cemex and Tata steel enter to United Kingdom market found that despite efficient entry strategies firms still encounter issues in the integration of the supply lines. Cemex has highlighted the relevance of being familiar with the local environment of the target market by having production sites as close to the consumers as possible as well as achieving a thorough supply network supported by a logistical base (Ozcan, Mondragon, Harindranath, 2018). Furthermore, Tata Steel internationalization practices focus on “reducing inventory levels while at the same time improving customer services levels (Interviews, Tata Steel, 2011). One of the main findings of the article was that Emerging market multinational enterprises (EMNEs) reach a global scale and made a lot of commitments in their new acquisitions. Regardless, potential dangers exist that are related to their exposure to various political elements. Protectionist policies gathering popularity create new challenges for internationalization. Foreign direct investment scope might also undermine business conditions globally if emerging economies do not succeed in maintaining macroeconomic conditions to the benefit of investing firms (Ozcan, Mondragon, Harindranath, 2018). With that being the case, it would be reasonable to conclude that to best define barriers of entry to a foreign market a combination of both strategic and structural management definition ought to be examined and presented.

To provide additional evidence for the importance of strategic and structural management methods of overcoming foreign market barriers, Portuguese firms’ perceptions on entry barriers will be analysed by gathered data and findings presented in a research article by Couto and Barbosa. In this paper, the authors attempted to estimate various barriers to foreign market entry experienced by Portuguese firms by surveying a sample of 168 firms. This research aimed to expand the definition of entry barriers by empirically estimating how entry decisions are made by the companies pursuing internationalization (Couto, Barbosa, 2020). To achieve this goal authors used a questionnaire as an instrument to collect data. This questionnaire contained 25 questions related to entry barriers and was presented to companies belonging to manufacturing, construction, wholesale, retail, insurance and financial industries. The questionnaire was based on a 5-point Likert type scale. Firms’ sizes ranged from micro that employed less than 5 employees to large companies that had over 250 person staff. Most survey results however were provided by small and medium-size companies - SMEs (50 – 249 employees). It is important to note that according to the paper, the majority of new companies are foreign firms which are 39 %. If new foreign firms are bigger than the rest of the sampled companies, that might explain product differentiation being a less important factor as an entry barrier to the Portuguese market (Couto, Barbosa, 2020). This finding demonstrates that foreign companies might face weaker barriers to enter the Portuguese market. This occurrence is largely determined by the fact that larger firms have more financial capabilities and can allow spending additional resources on other areas of business, such as marketing, production and others (Couto, Barbosa, 2020).

Overall research found that sunk costs, capital requirements, capital costs and cost disadvantage are the most important barriers to entry (Couto, Barbosa, 2020, p. 1). This result applies both to companies based in Portugal and foreign ones seeking to expand to the Portuguese market.

Furthermore, to best summarize the findings of the paper, 6 main factors that “drives firms’ perceptions regarding entry barriers are provided (Couto, Barbosa, 2020, p. 60). the First factor was “access to knowledge both as structural and strategic barrier related to know-how and research and development (R&D)” (Couto, Barbosa, 2020, p. 60). It is linked to technological changes regarding products or services that affect nature of market Second factor was strategic behaviour defined as “strategies to deter, discourage or even block entry; retaliation, limit pricing and incumbents’ use of information are examples of such strategy” (Couto, Barbosa, 2020, p. 60). Investment risk encompassing “capital costs and sunk costs” is put forward as a third factor decisive to understanding barriers of entry to a foreign market. Factor four is formed by advertising as a structural and strategic barrier so it is called advertising. Factor five concerns access to distribution channels as a structural barrier, capital requirements and economies of scale. It is identified as entrants’ cost disadvantages such as inability by “business to produce, transport, distribute goods to customers at a rate equal to or better than competitors” (Couto, Barbosa, 2020, p. 66). This occurs due to “Incumbents that have high costs advantages – for example, due to technological developments or better distribution channels may require less external capital” (Couto, Barbosa, 2020, p. 61). The final factor highlights “excess capacity and product differentiation as a strategic barrier” (Couto, Barbosa, 2020, p. 61). It is based on a theory by L. Sorgard that “entrant should limit their capacity, even if the production costs per unit are smaller to avoid the trap of high initial investment incapacity” (Sorgard, 1997, p. 349). An attempt to seek a niche market or possible gap in the market to undermine incumbents’ advantage of market share domination might be carried out by a company seeking to enter a foreign market. For example, an entrant “may be able to increase demand up to a certain level that incumbents’ capacity surplus is insufficient to serve the whole market, thus leaving the room to entry” (Sorgard, 1997, p. 351). This ability to increase demand according to specific requirements and find a niche in a saturated market is called capacity by A. Couto. It is the sixth and final factor as part of underlying dimensions of entry barriers to a foreign market.

The major result of the research was finding that “entry barriers seem to be attached to *structural* market characteristics, which encourage firms to respond *strategically*” (Couto, Barbosa, 2020, p. 62). Importance of knowledge, patents and switching costs was provided as cases. Moreover, the paper concluded, “Advertising and product differentiation provide similar examples where *structural* barriers induce *strategic* actions” (Couto, Barbosa, 2020, p. 62). Therefore, this master thesis will rely on *both strategic and structural management* theories and definitions of berries to enter a foreign market as the most effective tool to understand and analyse how companies adjust to and overcome challenges when expanding to a market outside their home countries. The following part of the theoretical framework presented in this paper will investigate specific barriers of entry and will provide their classification based on various attributes or features.

## **2.2. Classification of Barriers to Internationalization**

To best understand how various barriers affect firms trying to enter a foreign market it is crucial to first provide a detailed classification of possible barriers. Therefore, this part of the master thesis will attempt to propose a classification of different obstacles to enter a foreign market and explore their nature based on findings of academic research papers. It is important to note that barriers to entering a foreign market are “divided into external and internal with external barriers including governmental and political/ legal barriers, procedural and currency barriers, socio-cultural barriers” (Roy et al, 2016, p. 513). Internal barriers to enter a foreign market are informational, managerial, financial and marketing barriers (Roy et al, 2016). In other words, internal barriers stem from an innate

characteristic of a company that is not influenced by outside factors or experience only a fraction of influence from the surrounding environment. These factors are related to the human capital of a particular company, its technological capabilities, financial resources, know-how of a specific industry and other features inherent to a firm that sees to expand to a foreign market. These factors can usually “be influenced by political decisions or international organization contracts in medium or short perspective (Sekliuckiene, 2012, p. 127). Moreover, studies demonstrate that the skill of the managers and business people to encourage and create partnerships will influence how their companies enter the foreign market: firms with little to no international experience will opt out of partnerships, however firms that do have a lot of international experience opt for employing their skills and resources to expand to foreign markets (Annushkina, Regazzo, 2020). Therefore, it can be concluded that these factors are within a degree of control by an organisation and are not subjected to the outside environment whether political, cultural, institutional, geographical, specific to market and country or others. As a result, the theoretical framework provided here will focus on external barriers to entry into a foreign market that are directly related to the goal of this master thesis. On the other hand, internal barriers will be taken into consideration when details of the companies that will be investigated are provided and discussed. It is important to observe that external and internal barriers often work together creating synergy. Meaning that a company expanding to a foreign market will be more capable to overcome external barriers for internationalization provided it first solves internal factors contributing to success or failure. For instance, Leonidou in his study regarding barriers encountered by developing country-based manufacturing firms during ongoing export business operations finds that companies that have reached a stage of more evolved export development process are more inclined to employ foreign business methods as well as seeking to become more accustomed to foreign cultures and customers to achieve foreign representation (2020, p. 142). This suggests that certain firms’ characteristics that enable them to overcome internal barriers are also helpful and advantageous when dealing with external barriers as well such as networking in a foreign market, understanding its cultural traits and so on. Nevertheless, it is also highlighted in the article that organisational characteristics useful in dealing with external barriers to enter a foreign market have certain limitations when addressing internal barriers to internationalization: “firm’s internationalization status had no serious segregating effect on such uncontrollable and external barriers as government apathy, export bureaucracy/legislation, and competitive pressures” (Leonidou, 2020, p. 142).

To further illustrate the dichotomy between external and internal barriers for internationalization following visualization is presented in Table 1. This table is a display of various kinds of barriers as analysed in academic articles associated with firms’ internationalization strategies. It is based on an academic overview of scientific literature already presented and discussed previously.

**Table 1.** Internal and external barriers for internationalization

<b>External</b>	<b>Internal</b>
Cultural: language, customs, loyalty to national products & services, opposite worldviews (Calveli et al., 2018)	Market knowledge: lacking a proper understanding about foreign market company seeks to expand into (Marques et al, 2020).
Institutional: regulations and laws, governmental system, weak state institutions (Fuentelsaz et al., 2020)	Financial resources: capital costs, sunk costs, capital requirements (Kahiya, 2018).

Geographical: distance between foreign market and firm's base of operations (Hendriks, 2020).	Distance between different offices of organization: Communication issues arising from distance between different branches of the same organization. Travel time (Kabongo et al., 2019).
Economic: fiscal barriers, currency barriers, economic conditions (Cicatiello et. al., 2020).	Non-financial resources: know-how, human resources, experience in the field of commercial activity (Freixanet et al., 2020).
Political: relations between states, political tension, election results, geopolitics. (Duran et. al., 2016)	Management of the employees: relations between employees, organisational culture, hiring decisions, interpersonal issues (Duran et. al., 2016).
Others: distinctive to foreign market and state that depend on specific cases regarding target market conditions.	Others: specific to firms' type of activity and commercial operations (issues of production, logistics, delivery related to products or service provided).

Information and data provided in the table further strengthen the aforementioned premise, that external and internal barriers of internationalization are related as those barriers mirror each other. For instance, the difference in culture as an external barrier can be countered by firm's internal knowledge of foreign market and culture: "cultural distance, understood as the difference between cultural values characterizing the partners' national culture, conditions process of knowledge transfer and knowledge sharing within the new organization, and offers important inputs to organizational change" (Calvelli, Cannavale, 2020). Alternatively, cultural barriers can be exacerbated by a lack of knowledge or understanding about the non-native country and foreign market by a company struggling to overcome cultural internationalization barriers. Similarly, internal barriers such as lack of financial resources might be alleviated by institutional remedies. For instance, Narooz and Child in their research paper found that: "SMEs seeking to engage in international business can benefit from domestic institutional resource provision in terms of providing financial support for participating in foreign markets" (2017, p. 684). This example demonstrates how the home country counters external barriers related to firms' financial requirements through institutional assistance. On the other hand, the state might use the institutional regulations to enact laws, rules and other obstacles to create institutional barriers that raise firms' capital requirements or capital costs as means to achieve trade protectionism and defend national companies from outside competition. Therefore, institutional barriers (external) and financial barriers (internal) are related to each other: "higher entry modes impose additional demands on the firm regarding resources and commitment. Export intention, ownership link, institutional differences and trade protectionism also show a positive association with export barriers" (Kahiya, 2018, p. 1181). The geographic barrier for internationalization can also be understood in several ways, both as external barriers as well as internal ones. For instance, firms seeking to expand to non-native markets might simply choose to expand to the markets that are geographically closest despite those markets being riskier than their counterparts as was found in a research article analysing internationalisation pursuits of 23 top banks in Africa, over the period from 2010 to 2018: "with regards to country risk, banks in our sample expanded across the region, even into markets considered unprofitable, too complex or even dangerous by other multination banks" (Kabongo et al., 2019, p. 18). The article then goes on to clarify, that geographical barrier is closely linked to cultural one and African banks might prefer to go into markets that close in terms of geographic proximity and language. The analysis demonstrated that internationalization was affected by the international web of partnership that was tied together by a shared language. Most foreign partners of the Bank of Africa group are from countries where the French language are dominant (Kabongo et al., 2019). Such finding suggests that the internal barrier of having communicational



issues within the organization due to large geographical distance between several branches of the organization can be overcome by simply expanding regionally to avoid cultural and linguistic challenges. On the other hand, expanding to far-off regions might intensify the geographic barrier of internationalization: “Greater distance to nearby entities likely makes it difficult for subsidiaries to engage in face-to-face knowledge exchange, and it complicates travel for their employees” (Hendricks, 2020, p. 3). Therefore, it is rational to assume that geographical barrier to enter a foreign market has both internal and external aspects which can either reinforce each other if not handled properly or assist a company in its internationalization ambitions, provided that the company manages to solve issues that arise from physical distance dimension of business expansion across the region, continent or entire globe. Similarly, economic barriers of internationalization such as fiscal policies of the home country can be either mitigated or strengthened by resources not related to money or finance that are found within a company seeking to enter a foreign market. To prove this notion a finding from research paper focused on international firms’ managerial experience and its survival odds is presented: “there both literature-based arguments and empirical evidence to support that managers’ knowledge and experience may help international new ventures’ internationalization efforts and learning, and thus, improve their survival odds” (Freixanet et al., 2020, p. 5). The article then goes on to provide data and analysis of how managerial knowledge and experience in the field on international operations may be a deciding factor if international company seeking to expand to foreign market survives or not (J. Freixanet et al., 2020). Additionally, companies that carry out internationalization activities are affected by the political environment as an external barrier and organisational management as an internal barrier. Organisational management understood as relations between employees, organisational culture, hiring decisions, interpersonal issues of a particular company can either promote or undermine the internationalization of MNEs in the political sphere. Relevant research for this is provided in an academic paper examining the connection between political ideologies and the internationalization of family-controlled firms (FCF). Scholars that investigated this connection founded that there is a strong correlation between political ideology and family-controlled firm internationalization strategy: “governments with social conservative political orientation are particularly beneficial for family control because of their emphasis on the institution of family, which are at the core of family businesses” (Duran et. al., 2016, p. 483). In other words, companies that have family-based organisational management, culture, norms and principles enjoy advantages when presented with political barriers that are easier to overcome due to their internal nature of being FCF. This presents a case of how both internal and external barriers might work in combination or opposition as it is equally true, that firms that are not family-owned and consequently do not have appropriate values suffer additional obstacles in the political environment that is not suited for them. This rule also works in reverse since FCF can also experience stronger political barriers to enter a foreign market if the ruling political party and its ideology go against FCF internal organizational ethos. For example, it was noted in the article that “liberal governments should make effort to assure FCFs that they will follow policies of stability rule of law and will provide the necessary support and protection for firms to engage in the riskier strategies” (Duran et. al., 2016, p. 484). Therefore, it is logical to assume that a strong reciprocal link exists between internal and external obstacles for firms’ success to enter a foreign market concerning political system and its features. FCFs gain legitimacy from governments that regard them as important actors in the market and as a crucial tool to accomplish the government’s objectives in the economy and social sphere. Therefore, FCFs under conservative ideologies are more strengthened and are entitled to resources they would not otherwise attain. As a result, they are more prone to carry out internationalization

strategies (Duran et. al., 2016). This concludes a brief introduction between internal and external barriers to enter a foreign market and how they mutually affect each other. Lastly, it must be mentioned that there might be other internal barriers to internationalization that are specific to the firm that is trying to establish itself internationally as well as external barriers that usually depend on distinctive characteristics of a targeted foreign market. For example, Calvelli and Cannavale in their academic book on internationalization describe how companies are motivated and limited to expand internationally by various reasons that stem from external and internal factors: “as is often the case, the reality is more complex than theory, and companies, in choosing to internationalize, are guided by a mix of limitations arising from the desire to best exploit internal and external factors” (2019, p. 60).

### **2.3. Overview of External Barriers to Internationalization**

In the following pages of this theoretical framework, an attempt to provide a more detailed analysis concerning external barriers to internationalization will be made. Furthermore, various external barriers will be examined one by one based on recent academic research dedicated to the study of a particular obstacle (cultural, institutional, political etc.) to enter a foreign market.

*Cultural barriers.* A company that is setting out to expand into a foreign market must face various barriers that are distinctive to this market due to reasons intrinsic to that market and target country. Annushkina and Regazzo in their academic book that serves as a toolkit to present advice to companies expanding to foreign market states: “differences in culture between the home and target foreign markets can negatively influence the chances of success” (2020, p. 93). Furthermore, the same authors provide detailed steps regarding “making international partnership work” (2020, p. 99) and “making complex cross-border acquisition work” (2020, p.101). Both of these recommendations highlight the importance of cultural aspects that arise from cultural differences between the home country and a country of commercial expansion: “appreciate national cultures” (2020, p. 99), “understand the culture you are about to integrate into your company”, “immediately discuss with management and employees of the acquired company the ways you intend to blend the two cultures” (2020, p. 101). As a result, it is crucial to conclude that cultural barriers are an important factor in the overall success of expanding into a foreign market. To promote this viewpoint and to give it a modern perspective the case study of Marques, Lupina-Wegener and Schneider is provided. The authors in their research paper attempted to assess the entry of two emerging market banks to the Swiss private banking sector and their different strategies for internationalization in this pursuit. The first bank is the Bank of China (BoC) which is “one of China’s big five state-owned commercial banks which bought 70 % of an existing asset management company (Heritage Fund Management – HFM) from a small family-owned private bank in Geneva” (Marques et al, 2020, p. 718). BoC was later able to acquire a banking license to become involved in private banking activity. The former manager of HFM became CEO of BoC in Switzerland with a responsibility to hire a local management team. It “included several highly regarded and experienced local Swiss private banking specialists, however, general management of BoC in Beijing had little prior experience in private banking, which greatly limited their understanding of the bank’s operating” (Marques et al, 2020, p. 718). On the other hand, the second bank of the case study, J. Safra bank “is known for the hands-on management style of its owners, who are experienced private bankers” (Marques et al, 2020, p. 718). J. Safra Bank is a family-run institution that is managed by skilled professionals that already had clients in its home country (Brazil) and experience in private banking before expanding to the Swiss market as opposed to BoC

which had neither of those. Main differences between Boc and J. Safra Bank is illustrated in a table provided below by J.C. Marques and other authors based on the research work done on each institution.

**Table 2.** Major factors in the internationalization of J. Safra Bank and BoC

	J. Safra Bank	BoC
Prior managerial experience in international private banking	Yes	No
The existing base of clients from home country	Yes	No
Entry strategy	Merger & acquisition	Hybrid
Type of ownership	Family	Government
Liability of foreignness	No	Yes

As demonstrated in the table there were substantial institutional and cultural differences in the two banks internationalization strategies. Even though “both banks had broad international banking experience before they arrived in Switzerland, J. Safra Bank had considerably more private banking experience compared to BoC” (Marques et al, 2020, p. 720). Moreover, BoC experience in private banking was mostly affiliated with Chinese clients and their needs (Marques et al, 2020, p. 720). Therefore, BoC knowledge of this market sector regarding serving international clients not linked to China was limited. As a result, BoC suffered from Liability of foreignness: “the case of BoC demonstrates certain cultural and institutional barriers to entry” (Marques et al, 2020, p. 719). The authors then go on to explain how BoC had a very complicated and problematic relationship with the Swiss Financial Market Supervisory Authority (FINMA). The article states: “BoC Chinese management team was offended by having to deal with junior officials at FINMA. The tight control of Beijing over decisions and the lack of autonomy of the Swiss-based bankers reflect the importance of hierarchy and centralized decision making that was not received well by Swiss-based management” (Marques et al, 2020, p. 719). Inevitably, BoC experienced liability of outsidership stemming from the fact that Switzerland and China have radically different worldviews when it comes to managing teamwork with the Chinese preference of top-down approach to organizing business activity while Swiss put focus on decentralization. This liability of outsidership was already mentioned and explained in this theoretical framework. In the case of BoC expanding to the Swiss private banking sector, it provides additional info concerning the relationship between HQ and subsidiary based in a country with different cultural norms and an understanding of how commerce should be managed. The connection between HQ and subsidiary is undermined in this instance “not only by the lack of knowledge but rather due to lack of understanding of subsidiary local network from which initiatives originate” (Vahlne et al., 2012, p. 229). This lack of understanding of Swiss corporate culture specifically, cultural norms in general and how they are incompatible with the Chinese way of doing things led to “BoC facing the challenge of overcoming liability of foreignness as well as its liability of outsidership” (Marques et al, 2020, p. 719). Moreover, the article suggested that “in Chinese Companies, decisions are often made as ‘guestimates’, preferring to take ad hoc decisions to makings plans and creating a repertoire of flexible response options” (Marques et al, 2020, p. 719). This statement confirms that the cultural barrier to enter the Swiss private banking sector experienced by BoC had its origins in broader opposite cultural norms and was not a consequence of a failure of BoC HQ leadership.

J. Safra Bank unlike its competitor BoC “had gathered more experience in private Banking and had a longer presence in Switzerland” (Marques et al, 2020, p. 719). Moreover, it had the benefit of being

a family-owned private bank as opposed to BoC being a government-owned and controlled institution. This type of ownership presented considerable advantage to J. Safra Bank “as family business culture, which is largely relationship-based, fits well with the private banking culture in Switzerland and its tradition of family-owned private banks” (Marques et al, 2020, p. 719). Because of this similarity between Swiss corporate culture and practices of J. Safra Bank, the liability of outsidership was greatly reduced and did not become a source of contention as in the case of BoC. As a result, J. Safra Bank achieved success in its internationalization efforts to enter the Swiss private banking sector: “J. Safra is an example of an emerging bank group that successfully managed the opportunity to leverage its emerging market background, know-how, and experience into an enviable position as an established private banking player in Switzerland” (Marques et al, 2020, p. 720). As was already demonstrated by evidence gathered by authors of the analysed article a lot of this favourable outcome was influenced by the cultural affinity of J. Safra Bank business practises and background with Swiss work ethos and overall ethical or cultural norms. To further promote this premise article states: “J. Safra Bank was gradually viewed as a Swiss bank or at least imbued with a greater degree of Swissness” (Marques et al, 2020, p. 721). BoC internationalization efforts stand in stark contrast since they were an abject failure: “in 2012 it was announced that BoC Swiss branch would be taken over by a well-known Swiss bank” and “shortly thereafter BoC announced it would concentrate its private banking efforts in Asia” (Marques et al, 2020, p. 718). It is logical to assume that a lot of this failure had its reasons in cultural barriers to enter a foreign market as differences between Swiss and Chinese cultures both in everyday life and in business practices are substantial and were already provided in this theoretical framework. To present additional evidence of this statement article concludes: “BoC was largely perceived as a Chinese bank and considered a less successful and trustworthy brand. BoC retained a strong Chinese identity and a negative home country image, which was strongly played up in the Swiss media” (Marques et al, 2020, p. 721). Therefore, it must be concluded that cultural barriers of entering a foreign market are an important factor as far as internationalization strategy is concerned.

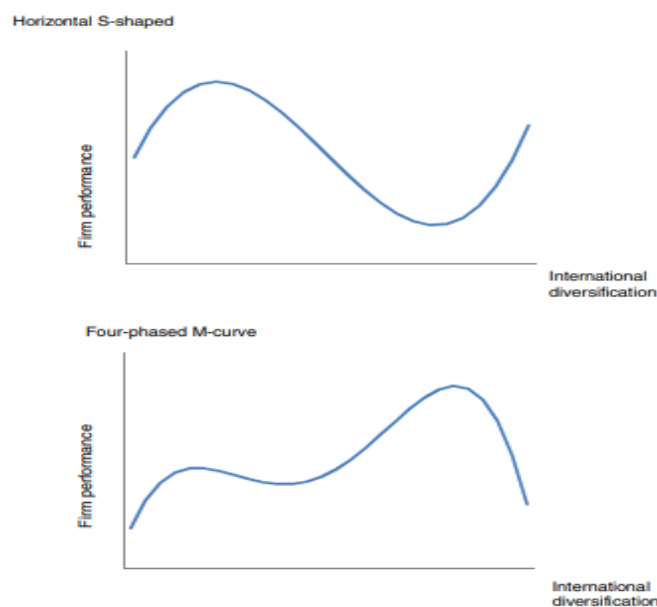
*The institutional barriers.* Another important factor that plays a role in the matter of internationalization strategy is an institutional barrier which “posits that institutional actors like government departments or trade bodies set formal economic policies, bank regulations and trade agreements which act as the rules of the game” (Kahiya, 2018, p. 1176). These rules, therefore, hinder the internationalization pursuits of a company and stand as a barrier to expand to a foreign market. In the article dedicated to investigating institutional barrier to internationalization author set out to “investigate the impact of informal institutional distance and formal institutions on a key decision (namely location choice) of multinational enterprises (MNEs) when they expand abroad through foreign direct investment” (Fuentelsaz et al, 2020, p. 1). For that purpose, mobile network providers were analysed in their decisions concerning their internationalization efforts during the period 2000-2017. The success of internationalization was measured by variable depending on whether MNE entering the market own at least 10 % of the subsidiary equity to exercise management control. Other variables measured were informal institutional distance and formal institution. Informal institutional distance is best understood as cultural and societal differences between various countries or societies. They were measured by metrics provided by Kogut and Singh (1988) index and yearly Governance index provided by World Bank. Kogut and Singh's index helps to define an informal institutional distance between the home and the host country. To further evaluate institutional barriers Governance index was utilised, which “measures the degree to which the institutions in a country allow the monitoring of political and social relationship to ensure effective implementation of public policies

and observation of contracts and laws” (Fuentelsaz et al, 2020, p. 7). After carrying out the research authors concluded that institutional barriers are an important factor in deciding failure or success when it comes to entering a foreign market. Moreover, it was found that informal institutional distance between host and home countries plays a very important role in both internationalization and overall MNE decision to enter a host country in the first place: “results reveal that location is influenced by the informal institutional distance between home and host markets. When the informal institution distance increases, firms encounter greater difficulties in carrying out their activities in foreign countries due to their lower level of knowledge about how businesses work in these countries. Additionally, it was noticed that “the likelihood of an MNE entering the country increases as the formal institutions become weaker” (Fuentelsaz et al, 2020, p. 13). This finding is puzzling and bewildering because common sense and basic logic imply the opposite. Namely, firms should be more attracted to host countries with assertive and resilient formal institutions such as reliable judiciary systems, strong and effective government, clear and defined tax code, presence of international organizations within a state and others. Lack of such institutions creates an additional risk that is potentially dangerous when entering and expanding to a foreign market. This premise is further supported by various past academic research finding that “the intensity of country risk, as a broader case of counterpart risk, is amplified in those countries that lack regulatory and financial institutions capable of protecting foreign creditors” (Calvelli, Cannavale, 2019, p. 131). It is generally assumed that absence of those institutions capable of protecting investors and foreign creditors are detrimental to the appeal of a country to international companies as a ground for further expansion or internationalization. For example, The World Bank Project Doing Business that provides objective measures of business regulations across 190 states consistently ranks states with strong and effective institutions at the top of ease of doing business rank with New Zealand, Singapore, Hong Kong, Denmark and South Korea being the top five. States, that have weak or even non-existent institutions are generally rated as least favourable to do business with Libya, South Sudan, Venezuela, Haiti being at the bottom of the ranking. With that being the case, it is mostly a universal truth that “institutional support is a necessary factor for a positive business environment as “governments and their agencies can effectively promote business entrepreneurship through providing necessary resources especially when these are made accessible under the terms of clear universalistic rules” (R. Narooz, J. Child, 2017, p. 683). This proves that without institutional support a company cannot be sure of its safety and long-term security and therefore most likely will decide to avoid unnecessary risk by not choosing to expand to a market without dependable governmental assurances of institutional assistance. This axiom is somewhat acknowledged by the authors of the aforementioned article researching the effect of informal and formal institutions on foreign market entry selection and performance: “prior studies have found that MNEs prefer to enter countries where the formal institutions are strong because of the lower perceived risks” (Fuentelsaz et al, 2020, p. 13). The fact that the above-mentioned research article presented data to assert the opposite is true strongly suggest that a more comprehensive analysis about formal institutions’ influence on entering a foreign market is essential for a more nuanced understanding of how political and institutional environment affects firms’ internationalization pursuits. One possible explanation for this anomaly could be found in the interaction between formal institutions and informal institutional distance when it comes to entering the host market. The article put forward a notion that formal institutions and informal institutional distance are inversely correlated. In other words, when the informal institutional distance between host and home countries is substantial, the “presence of sound formal institutions helps to reduce the obstacles for MNEs, increasing their likelihood of entering that country” (Fuentelsaz et al, 2020, p.

13). The same principle is also true in reverse. It was determined that “when the informal institutional distance is small, mobile operators seem to show a preference for countries where the formal institutions are weak” (Fuentelsaz et al, 2020, p. 13). This statement might explain why MNEs might prefer feeble institutions to strong and effective ones. The similarity between home and potential host countries might reduce the necessity of efficient formal institutions since MNEs would be operating in the market that they are already used to and comfortable in. Moreover, in the case of inconsequential informal institutional distance companies might even find it preferable to enter a foreign market with weak formal institutions as this tactic would present that with certain opportunities to exploit the system they are already familiar with: “MNEs might find it more attractive to expand to countries characterised by weak formal institutions, with governments with discretionary policy-making capacities, to try to negotiate advantageous conditions that make their entries more profitable” (Fuentelsaz et al, 2020, p. 13). All things considered, it is reasonable to argue based on academic research that institutional barriers are an important and sometimes even crucial element when it comes to firms’ internationalization goals.

*The geographical barriers.* The major factor of a firm’s internationalization strategy is geography or physical distance limitations and various details that stem from this aspect of barriers to entry into a foreign market, as it is widely believed that geography determines destiny. This view is supported by various academic research articles dedicated to exploring how geographic location is relevant to internationalization and what are the ways it hinders or supports firms’ goals related to spreading business activities outside the home country. For example, the article How the spatial dispersion and size of country networks shape the geographic distance that firms add during international expansion by G. Hendriks attempts to investigate how MNEs overcome obstacles of physical distance and how it is related to the spatial dispersion of a firm’s country networks. This study chose the retail industry as a target to analyse a geographical aspect of internationalization. Certain constructed measurement was made a central point of this academic research: “study constructs spatial dispersion measure of an MNE’s portfolio of country subsidiaries to better account for firm’s spatial characteristics when studying added geographic distance decisions (Hendriks, 2020, p. 2). In other words, spatial dispersion in the context of this academic article infers a firm’s country network and how to spread out and well established it is. Countless academic studies have been devoted to thoroughly examine the theory that: “cumulative internationalization knowledge that firms built up by expanding their network of countries likely make them more confident to add geographically more remote subsidiaries to that network” (Hendriks, 2020, p. 3). Therefore, a premise is made by the author that: “the greater the size of a firm’s country network, the more geographic distance it adds to its network when expanding internationally” and “the more a firm’s country network is spatially dispersed, the more geographic distance it adds to its network when expanding internationally” (Hendriks, 2020, p. 3). To simplify, it can be generalized that the author aimed to investigate whether and in what ways company expansion and operational distance in a home market affect its internationalization decisions when it comes to foreign expansion. Analysis was made up of 217 large retailers from 26 countries over 7 years based on data on the firm’s internationalization patterns gathered from Deloitte’s “Global Powers of Retailing” reports, which lists the Top 250 of global retailers on an annual basis (G. Hendriks, 2020). Several variables were selected to facilitate and measure a firm’s internationalization concerning spatial dispersion and firm’s country network: geographic distance, spatial dispersion of network, country network size, firm size and others. One of the major findings of this study was that companies refrain from internationalization efforts before the home market is fully saturated and all space for expansion in the home country is unavailable (Hendriks, 2020).

Furthermore, the article highlights the importance of the “interplay between both the size and spatial dispersion of an MNE’s country network when analysing its international expansion decisions” (Hendriks, 2020, p. 6). Such a statement implies that internal factors related to the position companies hold in the home market such as local geographic expansion as well as the size and spatial dispersion of a firm’s portfolio in a home country contributes greatly to further internationalization decisions regarding expanding outside the home market. With that being the notion of the article, it is also assumed in this specific study that the geographical barrier of internationalization is generally undervalued and not prioritised enough to its actual importance. The article even go as far as suggesting that “scholars may have underestimated the strength of the effect of geographic distance by omitting variables that capture geographic network configurations” (Hendriks, 2020, p. 9). Additional evidence of the relevance of geographical barrier to internationalization is presented in When geography matter: International diversification (ID) and firm performance (P) of Spanish multinationals. This article focused on the relationship between Spanish multinational firms’ international diversification and performance in accordance with those firms’ geographical aims for internationalization. The importance of geographic and locational circumstances was proven by the data collected by the research: “we find that the ID-P relationship exhibits different shapes when firms adopt different geographical focus. Firms with a regional focus adopt an inverted S-curve when the ID measure refers to the number of foreign countries and an M-curve when it refers to the size of the network of foreign subsidiaries” (X. Mendoza et al., 2018, p. 14). S-curve and M-curve mentioned in the quote from the article is a reference to the relationship between international diversification and firm performance. To further explain this relationship following illustration from the above-mentioned article is provided:



**Figure 2.** Relationship between international diversification and firm performance.

These curves help to explain the results of firm performance concerning its international diversification over time. Various academic theories have been presented to explain how these curves show different internationalization outcomes and results. For example, it has been theorised that “firm performance experiences a decrease in the initial first stage of internationalization, then followed by

an increase in the second stage, and after reaching a tipping point, firms move to the third stage where further expansion yields negative results” (Mendoza et al., 2018, p. 14). This type of curve has a letter S shape. It has been proved by “the empirical studies that have confirmed the existence of a horizontal S-curve that have been carried out in the most advanced countries” (Mendoza et al., 2018, p. 4). Moreover, a four-phased M-curve was proposed by several academic authors. For example, a research paper investigating Swiss firms’ internationalization pursuits noticed that “in the case of Swiss firms the S-curve is shifted to the right and preceded by a stage of increased performance” (Ruigrok et al., 2007, p. 365). Therefore, a correlation between firm performance and international diversification follow M-curve pattern due to reasons distinctive to Switzerland and related to geography, such as small home market (7 million inhabitants), proximity to much larger markets that share similar linguistical and institutional characteristics, unlimited access to European Union (EU) market (Ruigrok et al., 2007, p. 353). M-curve pattern found in Swiss MNEs internationalization analysis also coincides with results of an academic paper examining Spanish based firms’ foreign ventures: “based on the particular characteristics of Spanish MNEs (late internationalizers, full access to the EU as Spain is a member country, a shared language and historical links with Latin America), we hypothesize that shape of the ID-P relationship is M-curve for which we find strong empirical support” (Mendoza et al., 2018, p. 14). As a result, the notion of geographical barrier’s significance is given even more credence as both Swiss and Spanish global companies encounter related difficulties, adopt comparable strategies of internationalization and follow similar development that reflects in M-curve pattern. Furthermore, the findings of the study “highlights the critical importance of the country (and region) of origin in the initial stage of multinationality and its impact on firm performance” (Mendoza et al., 2018, p. 14). This crucial element of geography is also evident in already mentioned articles analysing Swiss and Spanish MNEs since “most Spanish MNEs are expected to take an incremental pathway to multinationality entering first into foreign countries culturally and institutionally proximate and moving sequentially into more distant countries” (X.Mendoza et al., 2018, p. 6). An identical strategy of internationalization can be observed in Swiss MNEs seeking to expand out of their home market: “ based on the empirical fact that Swiss firms are surrounded by institutionally related host markets, we argue that Swiss firms in a first stage internationalize to these geographically nearby and institutionally related host markets and that Swiss firms will be able to experience increased performance at low and moderate degrees of internationalization” (Ruigrok et al., 2007, p. 354). Lastly, it must be noted that geographical barrier being relevant and significant might obstruct firms to expand to far off locations across the globe and enter markets that are a long physical distance away from the home country. These challenges could be possibly exacerbated by the cultural and linguistical distinctiveness of remote foreign markets. To overcome these geographical as well as cultural and linguistical barriers associated with home and host market territories being so separated from each other MNEs might select several strategies. The first one is already described above model of Spanish and Swiss companies entering first to regionally close and culturally or institutionally homogeneous markets and then gradually expanding to more foreign locations. It assumes an incremental approach to internationalization and is known as the Uppsala model in academia (Johanson, Vahlne, 1977). However, it was noticed in this theoretical framework that research concerning the internationalization process and how geography might hinder it also provides alternate methods of how companies might expand over both literally (kilometres) and figuratively (culture & customs) large distance. Some studies suggested that the diaspora of the home country provides additional pathways to expand globally without the need to follow the gradual steps outlined in the Uppsala model of Internationalization (Johanson, Vahlne, 1977). For example,



it was discovered in the research paper analysing the internationalization of African banks that they often use diaspora population living outside their home countries as means to accelerate and reinforce their goals of growth in foreign markets, thus managing to skip regional expansion and directly entering areas for internationalization that would be otherwise unattainable: “the results of our qualitative analysis suggest that addressing the diaspora market also influenced the speed of internationalization. This modus operandi of many African banks increased the speed of international expansion into developed countries, making them go beyond the neighbouring and regional markets” (Kabongo, Okpara, 2019, p. 19). Taking everything into account, it must be concluded that the geographical barrier to entering foreign markets remains an important factor of firms’ internationalization process.

*The economic barriers.* Another major challenge company must deal with when it comes to internationalization is the various economic policies of a target country. It is customary for a country to enact laws and regulations to influence economic activity that happens within its borders. For example, Annushkina and Regazzo in a guidebook designed to bring forward useful advice for companies undergoing internationalization process state: “Competitive and non-competitive barriers may strongly restrict a variety of available entry mode options for your internationalizing firm. Low trade barriers or free-trade zones logically lead to the intensification of foreign trade and multinational firm’s selection of international trade contracts over other entry mode choices” (2020, p. 92). Therefore, it is rational to assume that certain economic policies linked to fiscal, currency and other monetary regulations make an impact on internationalization activities in a particular country. For instance, as presented in a quote from a guidebook to international growth, low trade barriers almost inevitably facilitate MNEs entry into the foreign market that is not protected by high custom taxes. Alternatively, state institutions might enact protectionist laws thus inhibiting international companies’ entry into its markets to protect a national business from outside competition. Annushkina and Regazzo continue: “High trade barriers make contract-based entry modes viable only for markets with a relatively high level of demand. An increase in trade barriers will logically lead to the necessity to build local production” (2020, p. 92). With that being the case, economic conditions and regulations in the target market play a relevant role regarding the internationalization strategy adopted. Additional evidence for this statement is provided in the academic article titled *Assessing the impact of fiscal transparency on FDI inflows that “analyses the role of fiscal transparency as a determinant of foreign direct investment (FDI) attractiveness”* (Cicatiello et. Al., 2020, p. 1). The goal of this article is to determine what is the connection between the appeal of a country to foreign investors and government transparency, meaning the availability and attainability of information concerning governmental activity related to laws, regulations and decision making (Cicatiello et. Al., 2020). To achieve this goal a test was “carried out employing a panel regression analysis performed on a sample of 72 countries observed between 2006 and 2015” (Cicatiello et. Al., 2020, p. 1). Before carrying out this test, several hypothesis and clarifications were made by the authors. First, it was assumed that fiscal transparency of a country is directly linked to the quality and effectiveness of its institutions that largely decide if a country is attractive to FDI: “The positive role of institutions as FDI attractors has been widely suggested by the literature, better institutions reduce costs associated with cross-border economic activity and uncertainty of investment environment for MNEs” (Cicatiello et. Al., 2020, p. 2). Therefore, an economic barrier to internationalization is closely linked to the institutional barrier as it is state institutions that inevitably create and regulate economic conditions under which MNEs must operate. This view is also supported in another academic paper that was already mentioned in this theoretical framework. The research article by Narooz and Child devoted to exploring the

internationalization of SMEs in Egypt and the UK notes: “if institutional support is deficient in quality or is withheld, SMEs seeking to export may be disadvantaged. Furthermore, institutions may act dysfunctionally for internationalizing SMEs by operating corruptly or imposing restrictions on access to their services” (2017, p. 684). As a result, a healthy economic environment is vital for internationalization strategy to be successful. This notion was the second assumption of the article assessing the relation between transparency and FDI: “good governments may want to send a signal to demonstrate the reliability and integrity of the institutional system. Clearing the opacity from budget documents may be a good signalling strategy because it opens the way for external control of consistency” (Cicatiello et. Al., 2020, p. 2). It was concluded eventually that even though the availability of comprehensive information on general fiscal transparency is important when it comes to incentivizing FDI it is not the preeminent factor deciding that. It was also concluded that is only one factor among many others regarding the attractiveness of a country to FDI. However, it was noted that fiscal transparency is crucially important concerning tax allocation and financing of government institutions: “empirical analyses find that the effect of overall fiscal transparency on FDI inflows is positive but not consistently significant among different estimations, while fiscal transparency during the budget execution phase has a strong and statistically significant positive association with FDI inflows” (Cicatiello et. Al., 2020, p. 8). Moreover, it was suggested by gathered data that association between transparency in budgeted execution as an economic barrier to internationalization and scope of FDI nation attracts applies both to developed countries with strong and effective institutions as well as developing countries with weak ones: “this relation is shown to exist regardless of the degree of corruption and the quality of institutions of host countries” (Cicatiello et. Al., 2020, p. 8). All in all, it is reasonable to presume that findings of this and other academic papers regarding economic barrier relevance to internationalization demonstrated that economic conditions such as fiscal transparency, currency policy and many others have a role when companies decide to enter a foreign market. This role is important enough for academic article authors to propose governments invest heavily in transparency and clarity of their fiscal policies even at a price of administrative resources: “administrative costs associated with the realization of an effective transparency reform can be considered a strategic tool for governments, given that this effort may provide a substantial return in terms of international attractiveness” (Cicatiello et. Al., 2020, p. 9). To that end, it is prudent to give economic barriers to internationalization attention and the significance they deserve and merit.

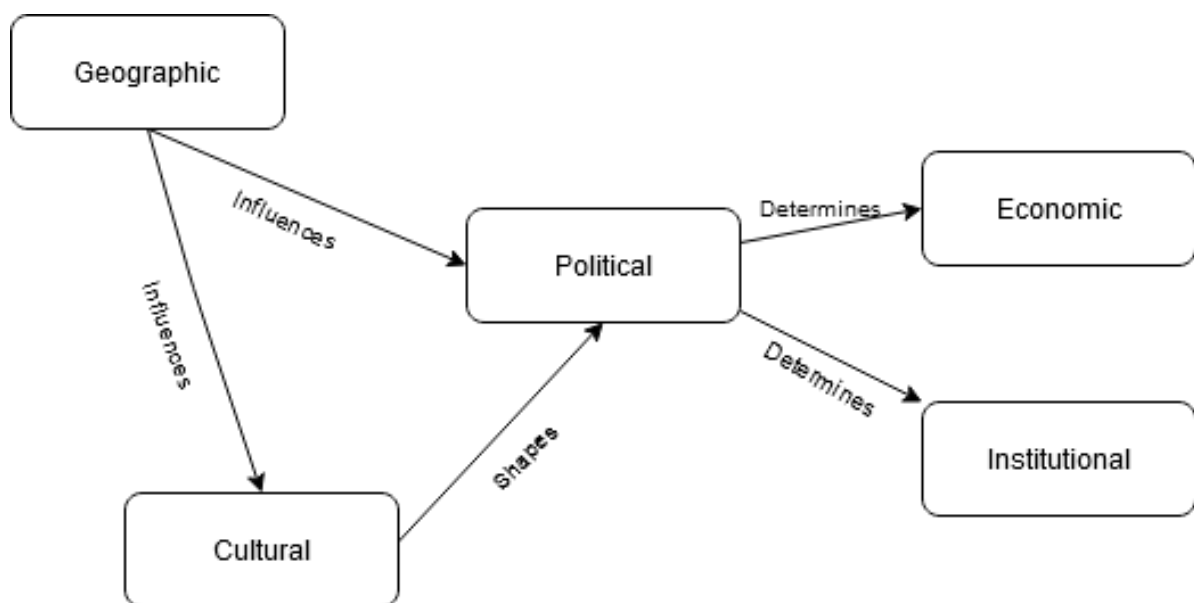
It is important to highlight the fact that the barriers described are interrelated and are mutually dependant on each other. For example, culture is heavily determined by the geographic area of a given region and is therefore influenced by a specific location (Calveli et al., 2018). It has been pointed out in the literature discussed that most factors related to barriers to internationalization have origins in several causes rather than just one specific obstacle to internationalization (Cicatiello et. al., 2020). Moreover, a holistic view is required to correctly evaluate the performance of a specific company undergoing internationalization as these efforts will have to deal with a set of barriers, each compounding others and creating a bigger picture that will be missed if only a single factor is analysed without taking others into account.

The final external barrier to internationalization is political and it concerns the political system, elections, ruling ideology, relations between states, geopolitics and other political aspects. Since the political environment is a key element of this master thesis, this particular barrier will be investigated, explored and described with exceptional depth and insight. Furthermore, an attempt will be made to prove based on academic research that the political barrier to internationalization is the most

important of all the barriers already covered in this theoretical framework and that political barrier largely determines other barriers to enter a foreign market. In other words, understanding and mastering the political environment will be established as the main part of an effective internationalisation strategy that brings positive results. To achieve this aim various academic papers that analyse how politics affect internationalization will be presented, discussed and investigated. The goal of this analysis is to demonstrate that the political environment is eminent to any firm seeking to expand to a foreign market. Moreover, it will be shown that without a favourable or at least neutral political environment no successful internationalization is possible. This will be done by listing several components of the political environment and describing them meticulously in accordance with academic articles.

## 2.4. Political Barriers to Internationalization

To demonstrate the importance of political barriers to internationalization it is necessary to understand how different barriers interact and affect each other in the process of different companies entering and establish themselves in the foreign market. It has been already noted in the various academic literature that different relationship exists between various barriers. For example, it was assumed that various barriers work in conjunction with each other and are mutually dependant (Calvelli and Cannavale, 2019). To further illustrate this point following figure 3 is presented. It is composed based on data found in various academic papers examining the issue of political environment and barriers to internationalisation. A central premise of figure 3 is to demonstrate that the political barrier is of crucial importance to the overall success of internationalization. The illustration below demonstrates different barriers of the host country and that the political environment is at the centre and pivotal concerning all other barriers. Moreover, it is related to the foreign market of the country expanding into since that is the main object of internationalization and not the home country.



**Figure 3.** Importance of political barriers to internationalization

### 2.4.1. Impact of Political Barriers to Internationalization.

To confirm the importance of the political environment to the outcome of internationalization it is required to first recognize the connection of politics to various institutions that determine the degree to which internationalization is successful. The fusion of political institutions such as parliaments,

governments and ministries with public or sometimes even privately held companies is defined as crony capitalism and is a relationship-based system. The main feature of such a system is the fact that representatives of government agencies participate in the governance of public companies (Rajan and Zingales, 1998). Under such system, the economy is managed by a ruling political party which controls levers of power to promote companies with shared interest or ideologies. Competing views exists in academia if this is a nature of capitalism as a structural force or is it an anomaly and an unnatural event that can be successfully avoided (Rajan and Zingales, 1998). In any case, it remains a fact that the political environment is a supremely important factor that determines how state institutions operate and how they affect firms seeking to enter a host country market. It is also true that having political connections in government institutions is considerably helpful to achieve goals of internationalization and a company that does not have such connections will be at a disadvantage in comparison to competitors that enjoy political support. To further exemplify these presumptions academic article Corporate governance, political involvement, and internationalization: An empirical investigation in Japan and Taiwan will be presented and analysed. This article “investigates the effects of intervention by government and financial institutions on the degree of internationalization in Japan, with particular attention to the impact of the main bank system and the system of amakudari. The appointment of retired bureaucrats to the boards of public companies” (Chen, Yu, 2016). It is customary in the Japanese political system for retired bureaucrats to move to new positions in private or public corporations. This practice called amakudari of employing civil servants creates strong informal networks and alliances between actors in state institutions and private enterprises. This procedure is ostensibly presented as means to share knowledge between government organizations and business ventures to achieve better efficiency. The authors of the article set out to explore how this relationship affects the internationalization pursuits of various Japanese companies. Additionally, the article challenges the official notion that amakudari system is a neutral arrangement that is not beneficial for either government or private companies. It is already contemplated in some academic literature that this system is used to promote certain companies or to implement projects and ideas supported by the government (Rixtel and Hassink, 2002). Moreover, it is sometimes assumed that government is less inclined to intervene in a company with a high degree of internationalization since such a company will be more difficult to control than companies based solely in a home market. Furthermore, political powers are more interested in intervening in the operation of domestic firms because they are easier to use in generating popular support or votes in an election. Therefore, it was hypothesized by the authors of the article that “the degree of internationalization is negatively associated with intervention by the government” (Chen, Yu, 2016, p. 643). It was also noted in the article that if the government decides to intervene in a company with expansive internationalization pursuits there is a clear danger that the government will choose to put its domestic interest first and undermine internationalization because “main goals of government intervention in a company are to generate domestic votes and increase jobs, not to increase the firm-level degree of internationalization” (Chen, Yu, 2016, p. 644). As a result, a second major premise of the article was that if government intervention occurs whether by process of amakudari or by any other means inevitable consequence will be that “intervention by the government will result in a lower subsequent degree of internationalization” (Chen, Yu, 2016, p. 644). To test these assumptions authors analysed data of Japanese companies included in the Nikkei 225 index in the timespan between January 2001 and December 2014. The results founded gave reasons to state that participation of political actors in the affairs of a private company has a negative outcome for goals of internationalization: “empirical results support the view that the relationship between the degree of internationalization and

subsequent political involvement is significant and negative” (Chen, Yu, 2016, p. 654). In addition to that, it was noticed that enterprises that are not limited to the domestic market have an easier time avoiding being influenced by government institutions or political forces: “results suggest that companies with a higher degree of internationalization may try to fend off intervention by government and financial institutions” (Chen, Yu, 2016, p. 654). One possible explanation for this finding could be the fact that international enterprises are not restricted to their home market and therefore less susceptible to political influence in their home country regardless if it is a punitive action or a rewards-based system. As a result, the premise of the article that internationalization scope is negatively correlated to an intervention of a government is confirmed. Furthermore, data presented in the article also supports the claim that amakudari practice is detrimental to Japanese firms’ internationalization efforts and that former government officials now working in private companies put domestic and political concerns ahead of shareholder interests: “empirical results also suggest that political involvement and financial intervention are not accompanied by a higher subsequent degree of internationalization. On the contrary, intervention may reduce the subsequent degree of internationalization” (Chen, Yu, 2016, p. 654). These findings manifest the importance of connections existing between the political environment and institutional barriers to internationalization. Amakudari phenomenon is not limited to the Japanese political system. This article is relevant when analysing political barriers to internationalization since these barriers are inevitably created by political actors and are not conjured out of the void. They are naturally built by people in the political class whether they are political party members or government officials. Therefore, it is crucial to investigate this interrelation between business and politics to better understand the origins and background of political barriers that might be encountered when a company seeks to enter a foreign market. For example, political parties of competing ideologies might create radically different political barriers to internationalization, and it is, therefore, vital to investigate amakudari practice. Its further importance is proven by the fact that academic literature suggests similar practice occurs in other parts of the world. For instance, it is known in the English speaking world as a revolving door principle which states that there is a constant exchange of officials between public and private institutions. This relationship of business ventures with governmental departments can be either great assistance or a significant obstacle to internationalization. That applies both to companies seeking to enter a foreign market and companies from their home country attempting to expand globally (Chen, Yu, 2016).

To give this argument more depth and strength a case study of how political and market exposure nurture ambidexterity will be discussed. Ambidexterity is an aptitude to use both left and right hands equally well. In the context of business and economics, it is understood as the organizational ability to maintain a balance between exploration and exploitation (Dai et. al., 2017). Organizations with this feature can exploiting their existing competencies while simultaneously exploring new opportunities. Broadly this term means that business enterprises that are ambidextrous are capable to both be successful at current market dynamics as well as prepare and foresee any future changes. In the context of internationalization, this term has been expanded to “market-political ambidexterity”, which no longer refers to classical dimensions of exploitation versus exploration but to “the firm’s dynamic capabilities to manage influences from both the markets and the governments simultaneously” (Li et. al., 2013, p.2). This ability plays a key role when it comes to entering and competing in a foreign market. To investigate market-political ambidexterity authors of the research article analysed political risk and internationalization: “we empirically examined the simultaneous relationship between international market scope and political risk in the foreign direct investment (FDI) portfolio of multinational enterprises” (Jimenez and Boehe, 2018, p. 67). A sample of 164

Spanish firms operating at a global level and carrying various internationalization activities was analysed. It was explored how do political and market exposure impact each other and ultimately transform into market-political ambidexterity. It is usually assumed both in academic literature and the business world that wider geographical reach of internationalization and greater likelihood of political risk are interrelated since companies that have more international experience are more suited to deal with political threats. A similar stance was taken by the authors of the article reviewing causes and effects of market-political ambidexterity: “we argue that exposure to political risk and broader geographic expansion reinforce one another, nurturing the firm’s market-political ambidexterity. Thus, firms can take advantage of their experience interacting with host-country institutions in risky locations to enter a greater number of new markets” (Jimenez and Boehe, 2018, p. 68). If this premise is confirmed then not only is it true that the political environment to a large extent determines institutional barriers to enter a foreign market as demonstrated in figure 2, but it’s equally true that geography influences the political environment significantly. This assumption is based on the supposition that more geographically diverse company internationalization leads to experience which later assists in overcoming barriers related to political lists. Articles hypothesise: “we argue that a broader international market scope also increases market-political ambidexterity and plays a positive role on the level of political risk in the foreign direct investment portfolio” (Jimenez and Boehe, 2018, p. 68). Following this logic companies would first expand to easier to enter markets where political risk is minimal to avoid unnecessary hazards. Eventually as safer options for internationalization is exhausted, the company not content with its present reach would have no choice but to expand further to locations that are riskier politically. In this process, the company would naturally obtain more experience and knowledge of how to operate in a challenging political environment and how to adapt to changing political circumstances. This reasoning follows the gradual logic of internationalization that was already mentioned in this theoretical framework as an Uppsala model (Johanson and Vahlne, 1977). Furthermore, by expanding gradually companies get a valuable understanding of how political risk might manifest in practical terms. For example, MNEs with gradual internationalization strategy will get accustomed to the government using its monopoly over legal coercion to influence the company in a way that might cause damage either directly, by nationalization, changes to the tax code, or indirectly, by political pressure to conform (Jimenez and Boehe, 2018). This premise was ultimately confirmed by the data discussed in the academic article. It was founded that there is a strong link between market and political forces driving international expansion. This statement suggests that the more experience to political risk MNEs encounter the higher degree of market-political ambidexterity it achieves. This equips them to face various challenges arising from political barrier to internationalization: “exposure to political risk enhances market-political ambidexterity and thus allows firms to enjoy privileged conditions when entering a country which in turn, encourage them to pursue a broader international market scope” (Jimenez and Boehe, 2018, p. 74). Moreover, such a strategy presents advantages of diversification. For instance, companies that have broad international expansion are less susceptible to unsteadiness in their income streams since they are not dependant on a singular source of income. As a result, they become less risk-averse and tend to tolerate more dangerous approaches to internationalization. Furthermore, companies that enjoy diversification advantage are more likely to enter foreign markets with higher risks and apply experience already gathered by previous internationalization pursuits: “It is precisely in higher-risk locations to which the MNE can transfer successful existing routines and take advantage of its accumulated market-political ambidexterity” (Jimenez and Boehe, 2018, p. 74). In this manner, a positive cycle is formed where geographically diverse internationalization allows companies to be

better prepared to deal with political and institutional barriers that in succession leads to greater confidence and more broad internationalization.

Therefore, the concept of market-political ambidexterity is of great importance in the academic literature on internationalization and in real business practice. In addition to the already reviewed amakudari tradition, it reinforces the notion illustrated in Figure 2. Namely, that there is a simultaneous relationship between political and institutional barriers to internationalization and that political environment determines institution obstacles a company might encounter entering a foreign market. This view is shared by the authors of the article: “leveraging effectively the tension between the market and the government forces in favour of the firm’s interest is a valuable, rare and hard to imitate ability that constitutes the basis of sustainable competitive advantage in international markets” (Jimenez and Boehe, 2018, p. 74).

Inevitably, internationalization strategy to solve problems stemming from the political environment must also take into account that pressure might come both from home and host country institutions and markets creating what is called institutional duality (Zhang et al., 2016). This institutional duality affects corporate political strategies (CPS) and forces companies to face political challenges not only in the target market but also in a country of origin. For example, a study analysing 442 foreign-invested firms (FIEs) operating in China was conducted to find out what unique obstacles arise from a combination of institutional duality and which CPS is being used to overcome them. Previous research overview on this topic would suggest that the most commonly used strategy is to adopt various types of collective-oriented associational activities or firm-based political tactics (Zhang et al., 2016). It also states that since FIEs especially vulnerable to the liability of foreignness and consequently they must establish and maintain a good working relationship with the host government to be better prepared to enable business operations and understand the political environment and barriers arising from it. Moreover, FIEs are also influenced by the political situation of the country they are based in and the broader political relationship between home and host countries. For instance, it is stated in the article that the American Chamber of Commerce provides help to American companies operating in China through networking, advocacy and by facilitating diplomatic relations with the Chinese government (Zhang et al., 2016). Therefore, understanding of political environment and barriers to internationalization it creates is supremely important for any company seeking to expand globally. In the article focusing on FIEs operating in China collective associational activities or firm-based strategies employed are discussed and analysed. It is also mentioned that some companies prefer to avoid facing and recognizing the political environment altogether in hopes that such choice would yield favourable results: “some FIEs choose to stay out of politics in the host country to avoid government intervention, which is particularly sensible in China given the horrendous level of corruption government (Zhang et al., 2016, p. 453). However, the article later comments that such strategy is an exception as most companies operating in China prefer to actively adapt to the political environment and use tactics of deep involvement to get into the good graces of the host government. This strategy relies on single firm-based solutions to political environment problems. Alternatively, some FIEs choose a strategy that prefers cooperation rather than solving problems without assistance: “When taking the collective-oriented associational approach, they actively pursue membership in domestic business associations. Some FIEs even utilize domestic associations to a greater extent than domestic firms” (Zhang et al., 2016, p. 453). On the topic of domestic associations support for local companies expanding to the Chinese market, it is relevant to mention that article talks about such occurrence as a rather often exercise of CPS. However, this

strategy comes at a price of these domestic associations being closely tied with the home governments that fund them and as a result has a high level of influence over them. The natural consequence of such connection is that politicians very often go on to be in charge of such associations after their elected term has ended: “these associations are also very likely to invite retired government officials to be a nominal or actual leader if their organizations” (Zhang et al., 2016, p. 453).

This finding suggests that the already examined Japanese practice of *amakudari* is not limited to Japan and comparable practices are present in other countries as well. Moreover, it is noted in the article concerning the internationalization of FIEs operating in China that such practice is one of the reasons for institutional duality since home-based associations headed by former politicians are therefore influenced by political parties, public opinion, election results and political environment (Zhang et al., 2016). That influence inevitably translates to pressure for companies operating in different foreign markets. One possible example could be highlighted in the recent case of Huawei, a Chinese multinational telecommunications equipment company that has been named by United States of America (USA) politicians as a threat to national security. As a result, the political decision was taken to ban Huawei from interacting with the business based in the USA meaning that companies cannot sell or transfer technology to Huawei. That does make it harder for Huawei to operate as it relies on several USA suppliers for parts. It was speculated, that this decision was influenced not only by national security concerns but by the desire to protect the USA manufacturers from Chinese competition which has been a central point of President Donald Trump electoral campaign theme. In any case, the decision to take measures against Huawei will most likely have repercussions as retaliatory action from the Chinese government against USA companies are to be expected. This example demonstrates that institutional duality is not only a theoretical concept but a reality that shapes corporate political strategy and that cannot be ignored. It also portrays how institutional duality depends on the political environment and can only be analysed on a case by case basis which is also confirmed by the conclusion of the academic paper: “our findings regarding the effect of institutional duality at different levels may be of particular interest. Our results showed that while the country, region and firm-level institutional factors are all influential to FIE’s CPS, they affect CPS to different degrees and in different ways” (Y. Zhang et al., 2016, p. 460). It was also determined by the research that trade associations serve a relevant political role as a communication mechanism FIEs and the host government: findings confirm that affiliation with domestic or foreign business associations enhances an FIE’s activeness in adopting firm-based political tactics to engage the host government” (Zhang et al., 2016, p. 461). Moreover, the study displays the relevance of a deep understanding of an FIE’s specific political and institutional environment for CPS. It asserts that there is no single solution that could be applied to all the cases of institutional duality as a political barrier to enter a foreign market and that thorough analysis is needed in each particular case of firm’s internationalization: “findings suggest that rather than blindly emulating others, FIEs scrutinize their specific institutional environments and linkages with both foreign and local sides when choosing different approaches to CPS” (Zhang et al., 2016, p. 461). Therefore, additional research on this subject is required to provide more context and to broaden the scope of various political barriers that could be a threat to successful internationalization. This notion is also somewhat recognised by the authors of the academic paper: “We acknowledge that our general theoretical framework and arguments need to be further tested in other research contexts to enhance the generalizability of our findings” (Zhang et al., 2016, p. 461). Furthermore, it is must be noted that more research on the topic of political barriers to internationalization is needed as all three articles analysed a limited sample of political environments. First article focused on Japan alone and its tradition to employ former civil



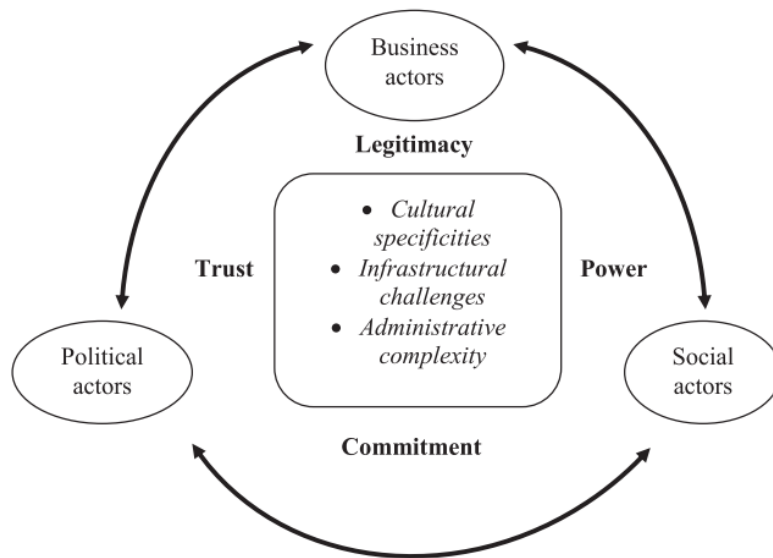
servants in private enterprises, the second article analysed only Spanish MNEs market-political ambidexterity while the third article examined solely FIEs operating in China. Therefore, it is fair to assume that different results might be demonstrated by investigating the internationalization of companies from other regions of the globe that have other cultural, political or economic realities.

In addition to the relationship between political environment and institutional or economic barriers to internationalization connection of culture to politics should be investigated to best understand what political obstacles there are to enter a foreign market. It is an assumption of the theoretical framework analysing the political environment and its influence on internationalization that there is a link between the culture of a host country and political barriers that might arise from this link. To test this hypothesis several academic articles concerning the interrelation of culture and politics will be analysed. First, an article exploring Spanish firms' foreign direct investment and entry mode choice is presented. In this academic paper, the authors attempted to define what external uncertainty a company might face regarding entry mode tactics concerning investing in foreign markets (Lopez-Duarte and Vidal-Suarez, 2010). It was proposed that two main sources of uncertainty, in this case, are formal host country's environment (political risk) and informal one (cultural distance). Therefore, the article analyses the interaction of culture and political barriers to internationalization which is a particularly relevant topic for this theoretical framework. Entry mode choice is a significant subject of study in the field of international business. It demonstrates the level of commitment that investing company is ready to have in the target market. Academic literature on this topic proposes several options when it comes to entry mode choice: "investing company should decide if it will invest alone maintaining 100 % of the equity of the firm located in the host market- that is, investing through a wholly-owned subsidiary (WOS) – or if it will share the equity with at least another firm – investing through a joint venture (JV)" (Lopez-Duarte and Vidal-Suarez, 2010, p. 575). Academic literature has devoted a lot of attention to theoretical perspectives on entry mode choice. The most prominent theory explaining this subject is the Transaction Cost Theory (TCT) that offers external uncertainty as the main force determining the entry mode choice (Lopez-Duarte and Vidal-Suarez, 2010). According to TCT external uncertainty is created by cultural distance (CD) between home and host countries and the host country's political risk (PR). Both factors have been extensively investigated in academic literature separately ignoring the potential relationship between them and consequences arising from such relationship. Cultural distance is usually defined as the informal environment of the host country and was already extensively described in this theoretical framework by analysing several academic articles concerning language, shared values, traditions, worldviews and how these forces influence internationalization pursuits. (Ozcan et al., 2018). Political risk is interpreted as the possibility of adverse change in the governmental structure of a country and the transformation of the political environment that is created by such change (Lopez-Duarte and Vidal-Suarez, 2010). TCT suggests several points of view regarding entry mode (JV or WOS). On one hand, the investing company may choose to enter a foreign market by a method of a joint venture to obtain information, know-how and specific skills necessary. As these benefits are not easy to get working in an unfamiliar environment alone, the company sometimes selects investment partners to provide experience and knowledge. This strategy helps to overcome external uncertainty since it works as a link between the host and home markets: "local partner in a JV is the bridge that allows the foreign investor to save the cultural gap between both nations. The foreign company may rely on the local partner some control and coordination tasks taking advantage of its familiarity with the host country's culture" (Lopez-Duarte and Vidal-Suarez, 2010, p. 577). Similarly, by employing JV as an investment method political risk is limited and shared between several partners. Therefore, in a case of political

environment being uncertain, unpredictable or unfamiliar joint ventures are being given preference over wholly-owned subsidiaries. On the other hand, it is also true that greater external uncertainty generates considerable difficulties to associate with a local business partner. As a result, JV might not be the optimal solutions for internationalization: “greater external uncertainty leads to higher transaction costs when cooperating with a local partner, so foreign investors may prefer a WOS to avoid such costs” (Lopez-Duarte and Vidal-Suarez, 2010, p. 577). Moreover, WOS eliminates the necessity to work together with a partner whose thinking and behaviour are not completely understood by a company seeking to enter a foreign market. As a result, two competing theories of entry mode choice exists and deny each other since one states that when for political or cultural reasons external uncertainty increases, companies prefer to internationalize by maintaining a high degree of control and independence while the second theory considers flexibility and risk-sharing as a priority when faced with external uncertainty. It was proposed by the authors of the article, that there is a third variable that might serve as a link between cultural distance and political environment to solve this paradox of mutually incompatible entry mode choices (Lopez-Duarte and Vidal-Suarez, 2010). That third variable is language diversity between home and host countries of the FDI. It is asserted by the authors that external uncertainty and forces affecting it must be investigated under the influence created by the language and that this variable is not explored enough in the academic literature related to entry choice. Furthermore, the articles state: “local partner can play a role reducing external uncertainty only when there is no language diversity between the home and host countries of the FDI. When language diversity exists, the local partner does not contribute to reducing external uncertainty; just, on the contrary, he enhances problems derived from such uncertainty” (Lopez-Duarte and Vidal-Suarez, 2010, p. 577). If this premise were to be confirmed, then any empirical analysis must take into account the fact that political environment and language are connected and that there might arise political barriers to internationalization from linguistical reasons. For instance, authors provide examples that show how a joint venture party that has a mother tongue advantage uses it to gain political leverage and become a dominant part of the venture to establish a superior-subordinate relationship (Lopez-Duarte and Vidal-Suarez, 2010). To provide evidence for this statement article explains that a company whose employees are the native speakers of the language used in a target market inevitably are pore acquainted with a political environment that affects the firm’s internationalization pursuits and therefore gain the upper hand in management and decision making. Furthermore, the partner that speaks the language of a country that is a target for internationalization can use this to be better equipped to overcome political barriers. For, example, it has been noted by the authors that language similarity can be used to gather information and built connections with political actors that might be later used to overcome political barriers. After analysing a sample of companies that are both wholly-owned subsidiaries and joint ventures and carry out internationalization activities, a conclusion has been reached by the authors that external uncertainty as defined by TCT is an interaction between both political risk and cultural distance and that it encompasses the host country’s informal and formal environments. Additionally, it has been noted in the article that CD and PR cannot and should not be explored separately as they reflect and influence each other: “our results hint at the existence of an interaction effect between the two uncertainty dimensions most usually analysed in the literature on entry mode: cultural distance and political risk” (Lopez-Duarte and Vidal-Suarez, 2010, p. 586). However, it was also concluded that these dimensions should be investigated with language and the influence it has on the political environment in mind, particularly regarding entry mode to a foreign market. As far as entry mode choice is concerned, data presented in the article demonstrated the importance of the language barrier

between host and home countries. To sum up, it was founded that: “results point out to a preference for JV over WOSs when FDI’s environment is characterised by both high PR and CD. Nevertheless, such a preference for JVs takes place only when language barriers between partners, derived, in turn, from language, do not exist” (Lopez-Duarte and Vidal-Suarez, 2010, p. 586). This conclusion suggests that there is a preference for entry mode which allows high flexibility, lesser resource commitment and risk sharing with others business partner as long as there are no language barriers to undermine efficient communication between both parties. Moreover, external uncertainty is shaped by the political environment which, in turn, is influenced by cultural distance. Therefore, when analysing firms’ internationalisation it is wise and worthwhile to take into account how cultural aspects affect political risk before deciding on entry choice: “when language diversity does not exist, managers should look for a local partner to share the investment and reduce external uncertainty. The foreign investor main gain access to local knowledge and contacts and take advantage of the local partner’s familiarity with the host country’s formal and in the formal environment” (C. Lopez-Duarte and M. M. Vidal-Suarez, 2010, p. 586). The article also points out that then language barriers are present, working together with other partners as joint venture inflates the issues and costs associated with expanding and external uncertainty to internationalization. These findings demonstrate that the political environment is influenced and determined by the cultural factors of the host country. To further examine links between culture and politics a case of Tetra Pak and Axis Communication, two Swedish MNEs expanding into the Indian market will be presented. The article puts forward a unique analysis of how companies undergoing internationalization to a host country with a radically different culture can achieve success by creating an extensive network of relations in the political sphere. The article points out, that Indian and Swedish are the polar opposite of each other as the latter is a modern, progressive and liberal country that values tolerance, diversity, open-mindedness and generally permissive behaviour while India is considerably influenced by traditional and at time even highly conservative principles (Elg et al., 2015). Therefore, the two cultures are at odds with each other. As a result, common sense and academic literature analysing internationalisation would suggest that Swedish firms attempting to expand to the Indian market should experience substantial difficulties: “Differences in culture between the home and the target markets can negatively influence the chances of success” (Annushkina and Regazzo, 2020, p. 93). This view is also to a degree recognized by authors of the article analysing Tetra Pak and Axis Communication as they explain that these obstacles are usually overcome by providing an entirely new product or service and using it as a method to attract customers that would usually be attainable due to cultural gap. It is widely acknowledged in the academic literature that this is the main strategy of entry to a foreign market that is culturally too distant to relate in other more traditional ways. Moreover, it is usually assumed that relationship building and networking is futile tactics to use in a host country that is not culturally similar to a home country: “the negative effect of cultural distance is amplified by the presence of local partners – wherein a foreign market entry requires double-layered acculturation to both culture of the other company, as well as the new country itself” (Annushkina and Regazzo, 2020, p. 93). This viewpoint is however challenged in the aforementioned article regarding Swedish MNEs internationalization in India. They, contrary to popular opinion and current assumptions propose that a broad network of political connections should be made in a culturally distant country to deal with both the liability of foreignness and liability of outsidership. According to the authors, these obstacles can be overcome if MNE manages to gain two main factors that are essential to effective internationalization in an unfamiliar environment: trust and commitment. As outlined in the article, no positive exchange may occur so long as an element of trust is not present between partners.

Furthermore, commitment creates a possibility for several actors to engage in an enduring relationship that is advantageous for every party. Therefore, social and political alliances far from being a liability is an asset to internationalization in a culturally remote environment. To visualize their theory authors presented illustration as demonstrated in Figure 4.



**Figure 4.** The theoretical approach to culture and political environment

As illustrated in Figure 4 connections between various political, social and business actors should equip a company with intangible resources such as legitimacy or power to tackle challenges stemming from cultural or infrastructural complexity. To study this approach to internationalization a series of interviews were conducted with managers, sales partners, customers, business associated with Tetra Pak and Axis Communications concerning their efforts to capture the Indian market share of their respective services or products. Tetra Pak is a manufacturer of carton packaging for food companies while Axis Communications produces, sells and installs IP based surveillance cameras. Both firms' internationalization in India were studied and examined. Tetra Pak has been operating in India since the 1970s and although some of its products such as packaging for juices or still drinks are successful, the company still struggles with the major of its business, the dairy category. This underperformance is attributed to local traditions of milk consumption in India as well as with the fact that only one per cent of food is consumed pre-processed unlike in western countries where most food bough is already pre-processed (Elg. et. al., 2015). To change this custom and cultural belief Tetra Pak embarked on a mission to develop a series of projects to increase awareness of the benefits of the packaging technology for milk to health. To accomplish this goal company had to build a strong network of relationships with not only medical specialists and nutritionist but also with political actors and business partners as the outcome of the public relations campaign heavily depended on their support and commitment to the idea of buying mild in carton packages and general image company present to the consumers. To that end, the firm has organised several social projects relating to a nutritious diet in schools and other educational facilities. These activities had a positive influence on the trustworthiness and public image of the Tetra Pak in India. Moreover, it helps to develop a robust relationship with local political structures. This might serve as a preliminary confirmation that the

company can strengthen its legitimacy in a culturally different market by participating in social development projects and NGOs. It is also worthwhile to mention that Tetra Pak gained more power to influence the political environment because of contacts and relationships that were made by various social projects. For Axis communication main challenge was convincing local clients to switch from analogue technology to one based on IP which is the cornerstone of company business. To achieve this indirect sales strategy was used which highlights the importance of association with various partners as an intermediary between provider and consumer. That requires trust and long-term commitment. To built trust company had to reach out to public decision-makers and develop links with NGOs to demonstrate that Axis communication values ethical surveillance. These steps were beneficial for the company in terms of networking and relationship building: “positioning vis-a-vis government as well as NGOs is important for increasing legitimacy and trustworthiness, and hence developing close relationships with political actors and opinion leaders” (Elg. et. al., 2015, 339). Therefore, it is obvious that both companies chose to deal with barriers to internationalization by building resilient relationships within the host market. The article also provides a further case where such a relationship made a huge difference concerning the political environment of India regarding internationalization. For example, it was observed by the authors that Tetra Pak cooperated with local business partners to lobby against certain regulations imposed by the government and that without such cooperation favourable outcome would have not been achieved (Elg. et. al., 2015). This outcome was also made possible by the fact that Tetra Pak managed to influence the political environment by bringing critical issues such as health and consumers’ interest to the forefront: “this example further illustrates how Tetra Pak can appear as an actor with expertise in socially relevant matters, such as public health, to augment their influence on certain political processes. The firm can also rely on the increased legitimacy gained through participating in other recognized corporate social responsibility (CSR) projects in India” (Elg. et. al., 2015, p. 340). In this manner, both companies completed full circle visualized in figure 3 and attained all attributes necessary to overcome political barriers: trust, power, commitment and legitimacy. Several examples of that are provided in the article that shows how Axis Communications managed to reduce the tax burden by investing in relationship building with local Indian state governments since the company had previously mentioned four attributes. As a result, this study provides crucial data regarding political barriers to internationalization. It demonstrates that political barriers like complicated governmental system, the negative influence of political parties, troublesome bilateral relations between countries and others can be overcome by cultivating a relationship based on commitment and trust with political decision-makers and investing in networking: “the willingness to take part in social non-profit projects and fulfil obligations further increased trust. Another aspect that increased trust was that the firms were willing to invest major resources in educating different partners, involving business actors as well as those from the social and political sphere” (Elg. et. al., 2015, p. 342). Furthermore, the study shows that the political environment is a complex web of interrelations between business, social, and political actors (figure 3) and that to fully comprehend barriers to internationalization a thorough understanding of these connections is necessary. Even though this study provides such an understanding concerning the Indian market it does not examine the subject of political barriers to enter a foreign market in a developed world. It is a significant drawback of this article since emerging economies such as India differs significantly from developed or developing world (Calvelli and Cannavale, 2019).

## **2.4.2. Political Barriers to Internationalization in Russia and Eastern Europe**

The object of this study is political obstacles to internationalization to Russia, which is not an emerging economy, but a part of the developing world based on the data gathered by the world bank. Additionally, Russia is a post-communist state which brings a specific history of development and certain aspects not featured in other parts of the world. Therefore, to better comprehend circumstances related to internationalization in the post-communist sphere of Eastern Europe more specific case study is required. One predicament that is faced with such a requirement is a hurdle of very few studies on this topic being available. Moreover, studies that are accessible are usually not very recent as is the case of analysis of post-communist Slovenian companies and how they undergo internationalization. However, this study is still relevant to the theoretical framework as it provides information on how firms from post-communist states operated in the not distant past in comparison to present realities. It analyses 298 companies that were active in exporting Slovenian made products to neighbouring markets. The goal of this article is to name the conditions that are fundamental to the internationalization of companies in post-communist Slovenia as it becomes part of the world trading system. As a result, the study assumes that Slovenia and other post-communist states are in the early steps of the global internationalization process. The study also demonstrates that several factors might undermine the internationalization efforts of Slovenian firms due to communist past (Sustar, 2003). Those factors are a bad image of not being reliable, weak and untrustworthy public institutions, lack of stable and clear business environment. The article also outlined firms' characteristics that are also relevant to internationalization such as the size of the company and its international experience. However, it was concluded that external barriers took a priority over internal ones: "for Slovenian firms in the post-communist era, these environmental factors were more important than firm characteristics" (Sustar, 2003, p.484). This suggests that environment, including political environment and barriers to internationalization that stem from it, are preeminent element of any study that explores political barriers to entering foreign markets in this region and as a result, is relevant to this master thesis. Moreover, this article analysing Slovenian companies and their international expansion concluded that due to the peculiar past development of post-communist states firm's size not nearly as important to success as environmental conditions. On the contrary, strong and solid markets, that are economically and politically effective, are indispensable to the favourable outcome of internationalization (Sustar, 2003). The article also mentions the political environment as exceptionally relevant in the post-communist sphere since these countries are particularly susceptible to a confluence of politics and business. A practice that was already presented and described in this theoretical framework by analysing a series of academic articles on this subject, for example, Amakudari practice of the Japanese political system. However, the study regarding Slovenian firms' internationalisation, even though relevant to this master thesis, do not examine in-depth how political barriers affect global expansion undertaken by a company. Therefore, a more specific study that investigates the impact of political barriers on companies from post-communist states is required. Unfortunately, this subject is highly underrepresented in the academic field as such studies are few and far between. Furthermore, the aforementioned article concerning Slovenian company internationalization is not recent and consequently, newer studies on the topic should be presented and analysed to better illustrate present realities in the post-communist sphere.

As far as the Baltic region and Lithuania, in particular, are concerned in terms of internationalization very few studies have been carried out. One notable example is the article evaluating what prerequisites there are for the successful internationalization of SMEs in the Baltic states. It divides

those prerequisites for effective internationalization into structural and static with structural stemming from environmental factors and static being part of inherent firm's characteristics (Pekarskiene and Susniene, 2015). Furthermore, this study highlights the internationalization of SMEs in the Baltic state in comparison to the EU which is relevant for this master thesis because most articles presented analysed either emerging markets or developed countries and did not look into the Baltic region. Paper attempts to explore the composition of companies seeing to expand from Latvia, Estonia and Lithuania and how structural of static prerequisites depend on different barriers to enter foreign markets. The article points out that employment degree in manufacturing SMEs in the Baltic States is 23-26 % and that is a comparably low number concerning the European average (Pekarskiene and Susniene, 2015). Additionally, the premise is made that Baltic countries are not supporting small manufacturing companies enough instead preferring to promote large enterprises. It is also mentioned in the article that such occurrence is specific to the Baltic region and does not apply to most other EU countries. In the context of this master thesis, this premise is important since as explained in previous academic literature size of a particular company seeking to expand to a foreign market is one of the main determining aspect deciding whether or not the internationalization goal will be achieved. Various articles already discussed demonstrated that firms with fewer employees, less market share and less revenue are more prone to difficulties concerning overcoming barriers to internationalization (L. Leonidou, 2000). Therefore, the fact that a lot of companies in the Baltic states are micro-enterprises is relevant to this master thesis especially as such companies are more influenced by the political environment and political barriers to enter a foreign market. It has been noted that small to medium size firms don't have the same capabilities to handle political pressure, adapt to changing political landscape and to develop fruitful relationships with political actors" (Annushkina and Regazzo, 2020). It specifically applies to firms' trying to enter and entrench themselves in a host country that is considerably larger than their home country and that has difficult or troublesome relations with a home country. One possible solution to this problem presented in the conclusions of the above-mentioned article regarding Baltic States MNEs internationalization is outsourcing. According to the authors, outsourcing might be a useful tool for Lithuanian (as well as Estonian and Latvian) MNEs to expand globally by the use of external resources both human capital and knowledge. It was additionally remarked that In the Baltic States conditions are ripe for outsourcing due to educational institutions that completely oversaturate the labour market, laws that strongly protect copyrights and promote confidentiality, the competitiveness of nearby labour markets with smaller labour costs in comparison to the average wage in Lithuania (Olevsky and Dunska, 2014). At a face value, such a proposition for Lithuanian MNEs to use outsourcing as means to achieve internationalization goals seems reasonable, particularly with a huge part of the Lithuanian (and Baltic states in general) workforce being lost to emigration to western Europe. However, more research is necessary to find out if such assumptions and conclusions apply to internationalization directed to the Russian market. Additionally, more specific studies are required to explore how complex geopolitical circumstances in the Eastern European region and strained relations between Lithuania and Russia affect the internationalization efforts of Lithuanian companies. The article focused on small to medium size companies, nonetheless, big firms are also conducting internationalization and their experience is relevant to the overall picture as well, therefore more research is required.

To best understand circumstances related to internationalization in Russia an article investigating this subject will be presented and discussed. This article attempted to determine the importance of social networks and institutional or political barriers concerning the Russian market. Russian development

and past experiences as a communist country left a huge impact on the social fabric of the country. That eventually trickles down to all aspects of life in the Russian state including business practices and economic activities. One of the manifestations of such trickling down of soviet legacy is a well-known tradition of “blat” which is specific Russian or to be a more precise post-communist occurrence. It can be broadly defined as social networks or connections to obtain goods that were otherwise unavailable in Soviet times (Shirokova and McDougall-Covin, 2012). Blat was used to circumventing restrictions and communist party rules that were present in the Soviet Union. It is a method to achieve aims using personal contact in the relevant state institutions. After the collapse of the Soviet Union and introduction of free-market reforms, such practice was supposed to wither away as a relic of the past, nevertheless, it is widely assumed and generally perceived that relevance of personal connection in Russia did not diminish: “the importance of personal relations did not decrease, but rather changed its nature as these connections became important in the entrepreneurial process and new venture development” (Shirokova and McDougall-Covin, 2012, p. 179). There have been several studies dedicated to exploring this phenomenon in the context of the general entrepreneurial process, but there were few articles concerning how this post-soviet practice influences internationalization pursuits both of Russian firms seeking to expand outside Russian and those foreign companies trying to enter a Russian foreign market. Moreover, it has already been demonstrated in the theoretical framework that relations between political and economic actors are present, active and influential even in states that did not undergo communist experiment as Japanese amakudari practice show. Therefore, the exact extent to which social networks affect internationalization in Russia is a crucial question to this master thesis, since most studies already discussed failed to present analysis exclusively focused on the post-socialist political environment: “Given the development of the post-socialist countries, it is quite likely that the process of internationalization of firms from post-socialist countries may differ from the findings of studies conducted in other emerging economies or developed countries” (Shirokova and McDougall-Covin, 2012, p. 179). These discrepancies might be exceptionally pronounced at the very early stage of internationalization when a company has little to no experience in carrying out international business activities and overcoming political barriers and, as a result, must solve issues related to internationalization by finding avenues of expansion on its own without previously acquired knowledge or already existing partners. If the practice of Blat is all deciding factor in Russian entrepreneurial ventures then it must be concluded that barriers to entering the Russian market for new players are significant and very high. The authors of the article attempted to show how the internationalization process is connected to the role social networks play in Russia by analysing and discussing several cases relevant to this subject.

In addition to specific cases of companies doing business in Russia, a literature review regarding internationalization to this country was presented and discussed. Article maintained that there are three aspects of social networks concerning overcoming barriers to internationalization in Russia: patience, suspicion and performance (Shirokova and McDougall-Covin, 2012). According to the authors, the degree of patience in Russia is not very high, therefore business relations usually are not very long-term. Moreover, immediate results of any business relations are expected when operating in Russia. Furthermore, there is a lot of suspicion and mistrust in Russian business networks although social networks do diminish misgivings business partners have about each other in Russia. However, to most effectively overcome barriers to internationalization it is necessary to present favourable results and demonstrate successful performance in a given field of activity. These three aspects all have roots in the Soviet past according to the literature presented since due to the nature of the political



system in the Soviet Union with paternalistic connections (*blat*), economic mismanagement and shortages, heavy pressure to achieve results to fulfil party quotas of production. In this way literature present confirms that Russia's unique business and political environment are a creation of past legacy and liability of foreignness and liability of outsidership are more pronounced if a company that is seeking to expand to Russia comes from a country that does not share this distinctive development of transitioning from a socialist system to one based on private ownership of production: "cultural proximity plays a key role in establishing networks among Russian entrepreneurs. Given that the states of the former Soviet Union share a common language and similarities in their histories and many of their values, the likelihood of inclusion of potential partners from these countries in the network of a Russian entrepreneur is increased" (Shirokova and McDougall-Covin, 2012, p. 184). Even though at a face value this statement suggests that Lithuanian companies undergoing internationalization to the Russian market would have an advantage of cultural proximity and shared past development (common soviet legacy), it is necessary to bear in mind that interpretation on that history might be radically different in both countries. Moreover, it must be taken into account that for the past several decades, since the fall of the Soviet Union Lithuania and Russia followed different paths both of political and economic development. In term of politics, Lithuania joined western political institutions like European Union (EU) and North Atlantic Treaty Organisation (NATO), while Russia remains highly critical and even at odds with both institutions. As far as economic development is concerned, Lithuania sought to become part of the developed world with and to align itself with the economies of Western Europe. Eventually, those efforts provided results and in 2015 International Monetary Fund (IMF) has named Lithuania as the mature economy in the same category as Germany, the United States and Japan. Meanwhile, Russia is usually considered part of the developing world by IMF, World Bank and most global institutions evaluating the economy of various nations. According to the literature provided in the article analysing the role of social networks in the internationalization in Russia, this discrepancy of the western developed world and Russia applies not only to economics but to social connections and political environment as well: "networking in Western European cultures is built based on a rational approach and is considered to be a means of achieving certain goals from the viewpoint of a strategic perspective. By contrast, relations in Russia bear emotional connotation" (Shirokova and McDougall-Covin, 2012, p. 184). Therefore, any research on the topic of internationalization of Russia including this master thesis should investigate which has more influence concerning Lithuanian companies expanding to Russia: the past legacy of Soviet times and all cultural attributes that go along with it or the last few decades when both countries took separate and often conflicting paths of development. A major question of this thesis must be if two countries are more divided or united by their past and present realities. It is an especially pertinent question since links between Russia and the rest of the developed world are limited due to peculiar Russian business, cultural and political environment: "when the special character of the post-Soviet development with the associated social and political isolation of these countries during several decades is considered, entrepreneurs operating in the institutional environment of a post-Soviet country may face difficulties in creating and using networks in the internationalization process" (Shirokova and McDougall-Covin, 2012, p. 185). It is also important to note that there is scarce research on the topic of Lithuanian companies expanding to the Russian market. Therefore, this analysis will have to rely on the present realities rather than past knowledge. This presents certain challenges since the lack of past research on this subject does not provide any guidelines or information on how best to approach the issue. On the other hand, lack of research demonstrates that this master thesis and the question of how the political environment affects

Lithuanian companies pursuing internationalization in Russia is an uncharted territory that needs to be addressed and investigated.

## 2.5. Solutions to Overcoming Barriers to Internationalization

There exist different measurements in the academic literature of how to evaluate the success of a particular company. Some scholar suggests that growth and market share is a deciding factor to determine how successful company is (Annushkina, Regazzo, 2020). Others put forward financial measurements to find out whether or not companies' operations were a success, such as market share, number of people employed, profit margins and other numerical values (Jimenez, Boehe, 2018). Concerning national companies that operate within the borders of their home country, these measurements and factors are enough to decide if a given company flourishes or succeeds. Regardless, research literature covered in this thesis demonstrated that when it comes to international companies conducting business beyond and across national borders, a matter of internationalization becomes a focal point for a company to be successful.

The process of internationalization might be hindered by various barriers arising from culture, economy, geography and other factors. This thesis maintains that a major obstacle to internationalization is political barriers. An overview of academic literature, proposed explanations concerning interrelation between political barriers and other aspects of internationalization. However, political barriers can be further divided into firm-specific, target country, global and home country. Calvelli and Cannavale (2019) provided a classification of political barriers and their connection to internationalization by comparing their origins and hypothetical solutions (Table 3).

**Table 3.** Classification of possible political barriers

	Political barriers	Threats	Possible solutions
Firm-specific	Barriers arising from specific goods the company produces.	Goods might face additional customs taxes or might even be rejected at the border.	Product diversification. Providing evidence products are up to the standards of target regulatory country requirements.
Target country	Protectionism, Bipolar relations between the home country and target country of internationalization, local competition favouritism due to political reasons	Penalties and obstacles to pursue a commercial activity as means to influence the home country of the internationalizing firm.	Relationship building, networking, international arbitration, support of the home country.
Global	Terrorism, wars, international instability, economic sanctions, geopolitical hostility	Unfavourable environment to do business, appropriation of assets, prohibiting operations within the target country.	Little to none as depending on the size and scope of the company conducting internationalization.
Home country	Political pressure from home country officials not to conducts business in certain countries.	Negative public relations image due to company association with certain foreign markets.	Public relations campaign to improve PR, lobbying to create advantageous conditions in the home country.

Information presented in Table 3 assists in understanding concepts and challenges firms pursuing internationalization face, which can be helpful for empirical research and qualitative analysis of Lithuanian manufacturing firms operating in Russia. It also provides useful guidelines of what possible political barriers such firms might face and proposes an initial solution on how to best overcome them. This theoretical solution to the problem raised in this master thesis will contribute to the understanding of the issue of internationalization and add depth to the empirical analysis.

To summarize, the political environment consists of several different political barriers that might arise when internationalization operations are in effect. Those different barriers manifest themselves differently depending on a home country, target country, types of goods importer, company size, geopolitics, political attitudes, different interpretations of current political events and other factors. Therefore, successful internationalization depends on a multitude of aspects stemming from the political environment both in the home country and target country. Academic literature overview put forward a series of case studies that are helpful to comprehend different political barriers associated with internationalization. It suggests that there are many possibilities of how the political environment might influence firms' operations in a target country and no single case study can provide a broad example applicable universally. Therefore, to determine how political barriers to internationalization affect Lithuanian manufacturing companies operating in the Russian market, it is necessary to carry out empirical research based on their experience and practice.

### 3. Research Methodology

This part of the master thesis explains the process, methods, objectives and aims of the research conducted. Additionally, tools of data collections, analysis, instruments as well as a research framework and design are provided.

This research is divided into several parts. The first part is dedicated to the qualitative research of Lithuanian manufacturing companies that operate in Russia. The goal of the first part of the research is to find out how the political environment in Russia affect the internationalization of Lithuanian manufacturing companies based on the information provided in the interviews conducted with representatives of those companies and the experts on this subject. The second part of the research is devoted to comparing barriers to internationalization arising from political risks those companies experience to determine the relationship between the Russian business environment, Russian political environment and international relations between Russia and Lithuania. Lastly, using information gathered and theoretical analysis conducted, proposals of how Lithuanian manufacturing companies operating in Russia could overcome barriers to internationalization arising from the political environment will be made.

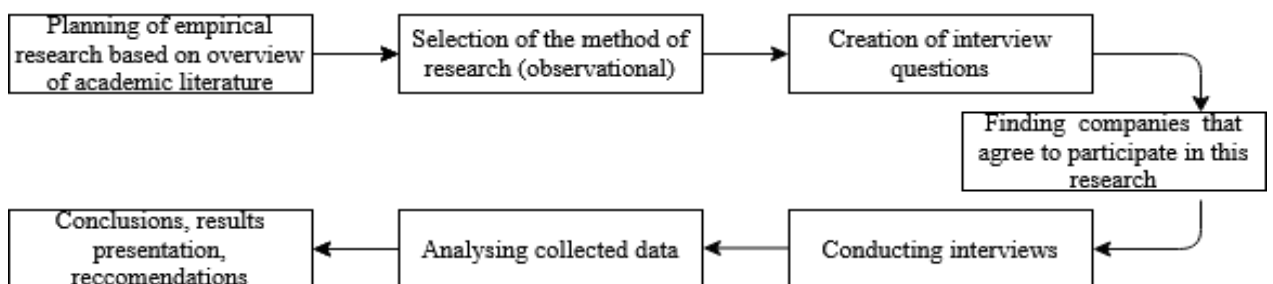
The **aim** of the empirical research is to explore and determine the political barriers experienced by the Lithuanian manufacturing companies in the Russian market and propose solutions on how to overcome them.

The empirical research **objectives** are:

1. To determine how Russian political environment affects Lithuanian manufacturing companies pursuing internationalization in the Russian market.
2. To provide recommendations, which can be used as a solution to overcome barriers to internationalization faced by Lithuanian manufacturing companies operating in Russian market.

These objectives are achieved based on the interview answers provided by the representatives of Lithuanian manufacturing companies operating in Russia and the experts on this subject using the observational research method. Questions asked were designed to obtain data and convey experiences of the companies in the process of dealing with political barriers to internationalization in Russia.

To display the process of information gathering, interpreting, comparing and drawing conclusions from it, the procedure of empirical research is illustrated graphically (Figure 5).



**Figure 5.** Process of empirical research

The interview was selected as a method of this research since it allows to understand attitudes, positions, opinions and views of the research participants (Rupsiene, 2007). Moreover, the interview method provides a way to investigate political barriers to internationalization in the Russian market by exploring the experiences and struggles of Lithuanian manufacturing companies in a more

informative and insightful manner. To illustrate interview as a method to gather information for this research following table consisting of questions presented to the companies and their intended goals is presented (Table 4).

**Table 4.** The conception of the information gathering method (perspective of the companies)

Types of questions	Elements of research	Content of questions
General information about the company that is being interviewed	Description of the company: Size, types of products manufactured, number of employees, history.	1. Briefly describe your company. What do you produce? How long have you been working in this field? What is the history of your company? What is the number of people working in your company?
Reason to pursue internationalization in the Russian market	Motives and logic behind expanding to the Russian market. Discovering why this course of action was taken.	2. What conditions exist in the home market? How did it influence the decision to expand? Why Russian market was chosen for expansion? 3. Goals of expansion to the Russian market. What opportunities are there in this area for the company? 4. What threats did the company expect to face before pursuing internationalisation?
Methods of internationalization	Investigation of methods of internationalization, entry options to the Russian market	5. What was the entry choice to the Russian market? Why was this option chosen? 6. Was there any assistance to internationalization from the institutions of the Lithuanian state?
Political barriers to internationalization	Russian political environment and its influence on Lithuanian manufacturing companies pursuing internationalization in this country.	7. What political barriers to internationalization did the company experienced? 8. How did they obstruct internationalization efforts? 9. How Russian political environment influenced your business activity within that country?
Solutions to the political barriers to internationalization	Overcoming political barriers to internationalization Lithuanian manufacturing companies face when operating in the Russian market.	10. What actions did you take to overcome barriers to internationalization stemming from the Russian political environment? 11. Were your actions successful? If not, why? What could be done to be more effective in overcoming those barriers?

Additionally, to demonstrate the relevance of the interview conducted with an expert of internationalization in the Russian market and Russian political environment, the following table is presented (Table 5).

**Table 5.** The conception of the information gathering method (perspective of the expert)

Types of questions	Elements of research	Content of questions
Relevance of the Russian market to the Lithuanian manufacturing companies.	Importance of the Russian market, possible ramifications of not overcoming barriers to internationalization in the Russian market.	How important is the Russian market to Lithuanian companies that do business internationally
Reason to pursue internationalization in the Russian market	The attractiveness of the Russian market for Lithuanian manufacturing companies. Reasons to pursue internationalization specifically in this market.	What are the reasons that motivate Lithuanian companies to pursue internationalization in the Russian market
Competitiveness of Lithuanian companies in the Russian market.	The ability of Lithuanian companies that do business in Russia to outperform their rivals.	Are Lithuanian companies competitive in the Russian market? What factors determine that?
Russian business environment and factors determining it.	Description and evaluation of Russian business environment.	How would you describe the Russian business environment? How is it influenced by the Russian political environment?
Political barriers to internationalization in Russia and how the Russian political environment creates these barriers.	Russian political environment and barriers to internationalization.	What political barriers to internationalization exist in Russia? How does the Russian political environment influence these barriers?
Solutions that could be recommended to Lithuanian companies facing barriers to internationalization in the Russian market.	Actions that could be taken by Lithuanian manufacturing companies to be successful regarding overcoming barriers to internationalization in the Russian market.	What possible solutions could be taken to overcome political barriers to internationalization in the Russian market?

**The sample of the research** is made up of three companies pursuing internationalization in Russia and the two experts of the Russian political and business environment. The sample size of 5 interviews was chosen according to the recommendations of the academic studies on qualitative research (Rupsiene, 2007). Moreover, respondents were selected using *convenience sampling*. Since the research topic might be perceived as contentious or sensitive respondents were chosen by their willingness to participate and ease of access. It was a complicated and difficult task to find companies and experts that would agree to answer questions regarding the Russian political environment and political barriers to internationalization. Therefore, some respondents were found using personal connections and others were reached through non-governmental organizations that promote the internationalization of Lithuanian companies. Main non-governmental organizations that assisted in finding respondents were the Lithuanian Confederation of Industrialists, Kaunas Chamber of Commerce, Industry and Crafts and Enterprise Lithuania. Due to the nature of this research and the questions of the interview, complete anonymity was promised to all respondents. There are several reasons for choosing these specific companies for this research:

1. These companies are all pursuing internationalization in the Russian market. Furthermore, they have been active in the Russian market for a considerable time (more than a decade) and therefore gathered sufficient experience that makes them eligible to participate in this research.

2. Respondents of the interviews carried out were knowledgeable regarding companies' internationalization pursuits in the Russian market since their positions in the company provided them with this information.
3. Companies chosen for the research were manufacturing firms that focused on producing goods rather than providing services. This choice corresponded with the goal, aim and objectives of this research.

The experts on the subject of the Russian political environment and internationalization of Lithuanian manufacturing companies in Russia was chosen by the following criteria:

1. A clear understanding of the Russian political environment gathered by many years of public service in the Ministry of Foreign Affairs of Lithuania and non-profit agency Enterprise Lithuania (both experts).
2. Current position as a major diplomat within the Lithuanian embassy in Russia working to promote the interest of Lithuanian companies pursuing internationalization in the Russian market (expert number 1).
3. Working as a leader of the export department for several years in a non-profit organization Enterprise Lithuania (expert number 2).

Therefore, this research was carried out by examining series of interviews designed to explore political barriers to internationalization in the Russian market using MAXQDA software as part of a **research instrument** to achieve objectives of empirical analysis. After interviews were conducted, they were examined by a method of descriptive analysis. To accomplish that a software MAXQDA was employed for analysis and to summarise information provided in the interviews to several key data points. Specific phrases and elements of speech found in the interviews were assigned a specific value conveying meaning relevant to the internationalization pursued by Lithuanian companies in the Russian market and political barriers encountered while doing so. Such a method allowed to evaluate and examine the experiences of the companies participating in the research concerning the Russian political environment and internationalization of Lithuanian manufacturing companies in the Russian market. Therefore, using MAXQDA it was possible to single out the most damaging aspects of the Russian political environment concerning internationalization and assign value to them (neutral, favourable, risky, difficult, unfavourable, hostile). Additionally, SWOT (strengths, weaknesses, opportunities, threats) analysis was employed to determine the position of each company in the Russian market.

**Limitations of this research.** Due to limitations imposed by Covid quarantine in Lithuania, interviews were not conducted personally. Series of questions was sent to the respondents of the participating companies that answered the prepared questions. After receiving answers follow up questions were sent to gather additional information relevant to the research. This method of conducting interviews enabled research participants to take more time to provide the most accurate and in-depth information regarding political barriers they experience when operating in the Russian market. Therefore, interviews were organised using correspondence and online communication. However, this also presented a limitation to the research as it did not allow to conduct interviews face to face and therefore non-verbal communication, tone of voice, emotions were lost and not recorded in the transcript. Respondents could think about their answers and therefore provided information that was based on calculated logic rather than first instinct. Another important limitation was the fact that chosen topic is sensitive and potentially damaging to the companies participating in the research. To ensure the accuracy of answers provided by the companies in the interview, complete anonymity was promised to the respondents. Nevertheless, a possibility remains that the information provided in the

interview was not completely truthful to avoid possible negative outcomes for the participating companies. Lastly, it must be recognized that sample of the research is limited and that any solutions presented to overcome barriers to internationalization in the Russian market apply only to analysed companies due to insubstantial numbers of participants in this research.



#### **4. Results of the Investigation of Political Barriers in the Russian Market Experienced by Lithuanian Manufacturing Companies.**

This part of the master thesis provides the results of the empirical research based on the analysis of the interviews conducted. Additionally, the theoretical and empirical part of this thesis will be discussed and evaluated to explain political barriers to internationalization facing Lithuanian manufacturing companies pursuing internationalization in the Russian market. Lastly, based on the analysis of interviews with Lithuanian manufacturing companies operating in the Russian market, input and knowledge of an expert of this subject and theoretical overview, possible solutions to overcoming political barriers to internationalization will be put forward.

##### **4.1. Analysis of the Lithuanian Manufacturing Companies Internationalization in Russia**

Interviews were taken with representatives of three companies that do business in the Russian market. All three companies are manufacturing companies that were founded in Lithuania and continue to work and operate from Lithuania as their home country. Companies agreed to participate in this research on the condition that they will not be named in this master thesis due to concerns that information provided by them in the interviews could be potentially damaging to their business activities in Russia. Therefore, a compromise was reached with companies' representatives that no specific information about the companies that could identify them will be provided in this master thesis. As a result, companies participating in this research will be named by numbers with a brief description provided as part of the interview analysis for each one of them.

Furthermore, it is necessary to mention that even though companies themselves are not specifically named in this empirical analysis, the answers provided and analysed in the interviews are informative and illustrative of political barriers to internationalization experienced by Lithuanian manufacturing companies that pursue internationalization in the Russian market. Moreover, interviews were conducted with the chief executive officer (1 case) and export managers (2 cases) of the companies and therefore provide qualitative information on the topic of this empirical research as interviewees were knowledgeable and aware of the details concerning political barriers their companies face when pursuing business in Russian market. Moreover, the interview was conducted with a Lithuanian diplomat working in the Lithuanian embassy in Moscow, Russia. This particular diplomat is responsible for the economic relations of Lithuania and Russia and hence, is acutely aware of specific difficulties and issues that trouble Lithuanian manufacturing companies pursuing internationalization in the Russian market. The goal of the interview of this diplomat is to investigate how problem analysed in this master thesis are perceived by the representative of Lithuania state who has a unique and close relation to the issue that is being investigated, since the Lithuanian embassy in Russia is not only concerned to create the positive environment for Lithuanian private enterprises in the Russian market but also acting for the best interest of the Lithuanian state. Consequently, it is necessary to investigate how these two aims are corresponding to each other and whether it is possible to achieve them both. Moreover, as a specialist in the field of the Russian political environment and its effects on Lithuanian companies seeking to enter and do commercial activities in this market, the interviewed expert can provide a lot of relevant and substantive data regarding this topic and solutions to the problems raised in this master thesis.

Empirical research will be carried out by investigating qualitative interview and presenting an analysis of the information provided by the companies in each question. Furthermore, different perspectives of each company will be compared to provide the full picture of the Russian political environment and how it affects Lithuanian enterprises seeking to expand in the Russian market. After all the answers of the companies are investigated, an outlook of an aforementioned expert in this field

will be presented and comparisons or differences to how private companies see this topic and solution to the problem raised in this master thesis and how the interviewed expert sees it will be put forward. Lastly, a discussion will be done to summarise research findings and propose solutions to overcoming political barriers to the internationalization of Lithuanian manufacturing companies operating in the Russian market.

The first question asked to the companies was intended to present more detailed information of the companies that agreed to participate in this research. Therefore, companies were asked to describe their business operations, main products manufactured, a brief history of their activity. The first company (Company number 1) interviewed produces automotive parts, for heavy vehicles such as trucks and construction machinery. Company number 1 was founded after Lithuania regained its independence and the former factory was privatised to adjust to the private market rather than the planned economy. At the moment the company has approximately 100 employees. Company number 2 follows a similar pattern as it was founded based on the former factory that was operational under the Soviet Union and then went bankrupt upon introduction of free markets reforms. Private investors gather the necessary capital to bring the factory back to life and that was the beginning of company number 2. At the moment company number 2 has 150 people working in Lithuania and another 50 in the subsidiary company in Russia. The main products of this company are various sauces, ketchup and mayonnaise. Lastly, company number 3 manufactures building and home heating materials. Similarly to the previously mentioned companies, company number 3 have been working in this area for a considerable amount of time. It was founded in 1996 by a former engineer who used to work as an employee in a former Soviet factory that manufactured similar production. Therefore, it is clear that a degree of similarity is already present in all three companies that agreed to participate in this research. All of them can one way or another trace their roots back to the Soviet era when goods produced in Lithuanian factories were designed to be part of a large Soviet economy and as a result, were transported to the east (Russian and other Soviet republics) to be used or consumed there. Company number 1 used to be part of the massive Soviet machinery production industry and air compressors manufactured in it were a vital part of the Soviet industry. Even though the Soviet Union collapsed, the structure of old connections and trade patterns persist to remain. Moreover, company number 1 still manufactures machinery parts necessary for the production of various vehicles in Russia. Similarly, company number 2 has its origins in a former Soviet factory as well, as it was revived back to life out of the ruins of the plant that produced sauces and other food flavourings to the consumers in the former Soviet Union. Lastly, company number 3 does not fit this pattern completely, however it was founded by an engineer who used to work in a building and home heating materials manufacturing in a Soviet factory before going on to establish his own business in this field after free-market reforms were introduced. It is therefore probably not a coincidence that all three companies have Russia as a target market and an important area to focus their attention on.

The second question of the interview was intended to find out what conditions exist in a home market (Lithuania), how are these conditions different to what company experience in the Russian market and how a decision to expand to the Russian market was made. Answers to these questions are interrelated to how companies answered the first questions about their origins and founding since it helps to explain choices made that led to companies that participate in this research being in a Russian market. For example, company number 1 explained that the Lithuanian market cannot be used to sell their products since Lithuania has no heavy machinery industry. There are no cars, tractors, harvester or other motor vehicles production facilities in Lithuania, therefore, company number 1 must export their air compressors designed to be put in various vehicles abroad. As a result, a choice must be made regarding where to best export goods produced. As already mentioned, company number 1 is exporting most of its production to Russia due to historic and economic reasons. In the interview,

an opportunity to look for alternative markets to export air compressors and other manufactured parts of car equipment was discussed and explored. The conclusion reached by the chief executive officer of company number 1 was that the Russian market is the only realistic and sensible place for them to sell their products and that without it, the company would inevitably have to go bankrupt. It was recognized that while in theory there can be alternatives to the Russian market, in practice it would be impossible to redirect the flow of production from Russia to other countries with automotive production industries. To abandon the Russian market and sell their products in other countries, company number 1 would have to make huge investments of money to change their production operations and design completely new parts for automotive vehicles. Moreover, before even starting the massive changes in their business, company number 1 would have to first find potential customers in other countries. To satisfy the needs of customers a complete overhaul of operations would be needed, and new products would have to be created from scratch. Furthermore, it was maintained by a chief executive officer of company number 1 that the entry barrier to the market of air compressors and other vehicle parts necessary to manufacture cars are exceptionally high and that most industries already have suppliers that satisfy this demand therefore any attempt to change target market from Russia to some other country would have to contend with fierce competition and therefore we highly complicated and difficult. In essence, it would be impossible for company number 1 to replace the Russian market if it was lost or not available for any reason.

Company number 2 (sauce production) similarly needs the Russian market to fully satisfy its production capacity. Some of the goods produced by company number 2 are being sold in Lithuania as well, however, the quantity of products manufactured is so high that the Lithuanian market alone is too small for company number 2. Therefore, as production was steadily rising, a decision was made in 2005 to start exporting abroad. Since main goods produced are difficult to transport over large distances a several markets of countries that are close to Lithuania were examined. Eventually, the company expanded to Latvia and Poland, however, Russia remains a significant and very important market for company number 2 to sell their sauces and other food products as the Russia market accounts for 30 per cent of all revenues of the company. The main attraction of a Russian market is its size since Russia has a huge population that are potential customers. Moreover, company number 2 claimed that they were looking for a similar market culturally and in terms of customers tastes to what they have in Lithuania. Marketing research was carried out to confirm that products suited to customers in Lithuania would be desirable by customers in Russia too. The company attributes the fact that their products are demanded in Russia as well as in Lithuania to the plausibility of similarity of tastes between consumers in both countries. Therefore, Russia is a perfect target market for company number 2. A loss of this market would not be crippling to the company as it has other areas of expansion, however, it would be critically important, as replacement of the Russian market would be a challenging process due to its significant size and familiar customer base. To sum up, company number 2 finds the Russian market to be similar to the Lithuanian one culturally as far as traditions, customs and general ethos are concerned, although bigger and with more opportunities for successful internationalization.

Company number 3 producing building and home heating materials are different to the previous two in terms of how much of their production they export to the Russian market. Unlike the first and second company, company number 3 exports only a fraction of goods manufactured to the Russian market (about 10 % of total production goes to Russia). Also, most of the production is being sold in the Lithuanian market and not abroad. However, company number 3, has sought to expand to foreign markets to increase profits, gain international experience and obtain knowledge of their business field from foreign competitors. At first, a possible expansion to western Europe was considered, however, this idea was postponed to some future date and the nearby market of Russia was chosen for

expansion. This decision not to seek to enter markets of western European countries was motivated by several factors. First, these markets were completely unknown and unfamiliar to the company. Secondly, these markets already have well-established companies in the field of building and home heating materials production which makes entrance barriers to these markets high and creates additional threats. Lastly, management of company number 3 considered that the mentality and worldview of the Lithuanian business community are closer to the one present in Russia than the mindset of western European entrepreneurs. Additionally, according to information provided in the interview, Russia has been expanding and having a lot of infrastructure projects in the far east to get better access to resources found in Siberia. Therefore, there is a great need for building materials in Russia and company number 3 can offer competitive prices for high-quality production. Finally, owners of company number 3 had several critically important, friendly and trustworthy personal relationships with key people in Russia that assisted in establishing business ties and promoted trade between the company and customers in Russia who needed to purchase reliable building materials. Consequently, the combination of these factors brought to a decision to choose the Russian market for expansion. Company number 3 is similar to the other two companies described, in terms of reasons and motivations to pursue internationalization in Russia, however, it differs from them significantly because the Russian market, although relevant, is not critically important and the company could adapt quite well if this market was not available or had to be abandoned. This difference comes from the fact that, unlike the first two companies, company number 3 only exports a fraction of its total production to Russia. To further underline differences between the three companies that participate in this research following table is presented based on the information provided in the interviews and answers to introductory questions that were analysed and investigated above.

**Table 6.** Comparisons of the three companies participating in the research.

	Company number 1	Company number 2	Company number 3
Business type	Production of vehicle parts (mostly air compressors).	Various sauces, mayonnaises and food flavouring products.	Building and home heating materials.
Conditions company faces in the home market (Lithuania)	Not possible for a company to sell products in a home market.	Favourable. The company sells a lot of its production (40 %) in Lithuania.	Favourable. The company sells most of its production in Lithuania.
Reasons to choose Russian market for internationalization	<ul style="list-style-type: none"> <li>• Historical (Russian market has been target market for a very long time).</li> <li>• Practical (not possible to make changes needed to find alternatives to the Russian market)</li> <li>• Linguistical (the Russian language is familiar to the management of the company).</li> </ul>	<ul style="list-style-type: none"> <li>• Cultural (customer tastes are similar in both Russia and Lithuania).</li> <li>• Size related (Russia offers a big market that has a lot of customers).</li> <li>• Logistical (Russia is geographically relatively nearby).</li> </ul>	<ul style="list-style-type: none"> <li>• Cultural (it was believed by the company Russian and Lithuanian business mindset is similar).</li> <li>• Specific to the company (personal connection with potential business partners in Russia).</li> <li>• High enter barriers to the markets of western European countries.</li> <li>• Specific to the Russian market (Russia is carrying out a lot of industrial projects and therefore are in dire need of building materials).</li> </ul>

Relevance of Russian market for the company	Very high. Finding alternatives to the Russian market would be exceedingly difficult if not outright impossible.	High. Russia is not the main market to sell manufactured products. Relocating the Russian market would be difficult, however possible.	Comparatively low. The Russian market is a minor area for the company as most production is sold in the home market.
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The next few questions given to the companies' representatives were designed to find out the goals of their expansion to the Russian market, as well as what opportunities there are for the company in this particular market. Additionally, interviewees were asked if they anticipated any threats before committing to internationalization to the Russian market. Essentially, companies were asked to provide a SWOT (strengths, weaknesses, opportunities, threats) analysis of their companies and their possible internationalization in Russia before deciding to expand. After the examination of answers provided to these questions by the companies, a SWOT analysis will be presented to better illustrate each companies' perspective on the subject. Moreover, the question of an entry choice to the Russian market will be looked into in this part of the empirical analysis since it is related to how companies pursuing internationalization evaluate their strengths and weakness.

Company number 1 stated that the main goal of their internationalization efforts in Russia is to maintain a current market share that they have managed to capture over a long period of business activity in that country. Additionally, it was highlighted that it is difficult to enlarge their operations in Russia for company number 1 since possibilities for finding new business partners are limited: "there are hardly any new actors in Russia that start a business in the automotive field out of scratch. Therefore, we deal with customers that we have done business with for a long time". Additionally, a company mentioned that they would like to find avenues to start selling their vehicle equipment to the Russian industry producing agro vehicles such as tractors and harvesters. The main strength of company number 1 is the experience and knowledge it gathered working for the past 3 decades with Russian customers and pursuing internationalization in this field. Since the company had been present in the Russian market for such a long time, it had to face a lot of challenges and hurdles and therefore learnt how to adapt, overcome and survive in a sophisticated environment that has many political barriers standing in a way of successful internationalization. Moreover, since the Russian market is of critical importance to company number 1 it had no choice but to survive in this market or perish and therefore gained necessary awareness and wisdom when it comes to accomplishing aims regardless of difficulties arising from the Russian political environment. As a result, another strength company number 1 enjoys is internal resources such as skilled and insightful staff that are accustomed to dealing with Russian customers. The main weakness of this company concerning internationalization in Russia is that company has no alternatives to this market and therefore are at a disadvantage. If the company was to fail or were forced due to political barriers to give up its position in Russia that would mean high financial losses or perhaps even complete collapse for the company. Consequently, company number 1 has its back against the wall and must either succeed or fail in the Russian market without any real way to find a substitute market. Insofar as threats company number 1 expected to face in the Russian market, there were several. First, there was a concern of Russian currency fluctuation and the possibility that would hurt trading across borders since Rouble is prone to losing its value. Additionally, company number 1 state that "private banks in Lithuania consider Russian market to be risky and not very promising. Therefore, they are not interested in converting rouble to other currencies and do not give commercial credits to companies pursuing business in Russia". As a result of such a negative attitude of private banks that operate in Lithuania company is forced to the company has to demand its Russian customers to pay for the products they purchase in advance. Furthermore, currency conversion is organised in Russian banks rather than the

ones in Lithuania. This has a result of making companies' sales more difficult and complicated as well as increased expenses when dealing with banks as the company has to organize currency conversion additionally rather than rely on the banking and financial institutions present in Lithuania. Lastly, when it comes to the entry strategy of company number 1 to the Russian market, it was predetermined by the history of the company that was already described in this empirical analysis. Ties and trading partnerships between the factory in Lithuania producing air compressors for car production and final consumers in Russian facilities manufacturing automotive vehicles occurred long before company number 1 was founded. Therefore, company management simply uses the strategy of entrance and pursuing business activities in the Russian market that was already predetermined and follows the pattern of selling directly into the market using a pre-existing network of partnership and distribution. Academic literature on the topic of exporting via direct or indirect means summarises direct exporting as a more proactive and hands-on approach to internationalization (Johnson, Turner, p. 248). It is described by the authors as a process of distribution and selling products to a foreign market through local sales offices or direct representatives based in a target market. These methods are both used by company number 1 to achieve results in a Russian market: "We have a local trade office and several representatives in Russia to speak on behalf of our company". Moreover, it is stated by the same authors that a direct exporting strategy demands a greater and longer commitment to a specific foreign market. Companies choosing the direct exporting option for their internationalization goals must invest more of their time, energy and resources in a target market to develop fruitful relationships with key players in a foreign market. As a result, firms pursuing such a strategy tend to focus on a single familiar foreign market rather than dividing their attention on several potential foreign markets that are not well-known to the company. This definition fits the information provided by company number 1 regarding its entry mode to the Russian market and strategy on how to achieve desired results in this market. Consequently, entry choice to the Russian market for company number 1 can be best summarised as direct exporting. To further illustrate the position of company number 1 in the Russian market, table 7 is provided to demonstrate a SWOT analysis of its internationalization in Russia.

**Table 7.** SWOT analysis of internationalization in Russia pursued by company number 1.

<p style="text-align: center;"><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• A long history of activities in the Russian market.</li> <li>• Employees are knowledgeable about doing business in Russia.</li> <li>• Experience with Russian political environment and its influence on internationalization.</li> </ul>	<p style="text-align: center;"><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• No real and genuine alternatives for the Russian market.</li> <li>• Putting all eggs in one basket (if the Russian market became unavailable company would face collapse).</li> <li>• Possibility to miss the opportunity for expansion due to narrow focus.</li> </ul>
<p style="text-align: center;"><b>Threats:</b></p> <ul style="list-style-type: none"> <li>• Currency fluctuation due to weak Russian rouble.</li> <li>• Economic sanctions on Lithuanian companies trading with Russia.</li> <li>• An unstable Russian political environment might hinder business operations.</li> <li>• Lithuanian banks refuse to give commercial credits to companies pursuing business in Russia.</li> </ul>	<p style="text-align: center;"><b>Opportunities:</b></p> <ul style="list-style-type: none"> <li>• Russian market offers many areas of expansion for companies producing automotive parts.</li> <li>• Strengthening of relationship and business ties with existing partners.</li> </ul>

Company number 2 stated that the main goal of its internationalization in Russia is to increase sales by reaching customers that are not yet aware of company products. Choice of entry to the Russian market for company number 2 was direct exporting at first, however later on company noticed that Russian customers tend to receive more favourably those products that sound and looks like part of their cultural heritage. Therefore, certain brands were created that have been designed specifically to fit the needs of customers in the Russian market. To accomplish this company number 2 opened a factory in Russia producing goods exclusively to the Russian market. The factory was opened jointly in partnership with another Russian company. Therefore, the entry choice of the company to the Russian market is a dual approach. On one hand company exports to Russia some of its products manufactured in Lithuania as part of the direct exporting strategy. On the other hand, the company uses partnering with other firms as an entry strategy to appeal to a specific segment of Russian customers. This dual approach to internationalization in the Russian market is necessary because this particular market is much bigger than markets of other countries company number 2 is present. Therefore, the company believes there is a lot of potential to achieve better results by having more effective marketing and simply uncovering segments of customers that at the moment are not exploited to the full degree possible. As a result, the main opportunity for company number 2 in the Russian market is to increase its revenue by approaching customers who have not yet been approached. The main strength of the company is that company has access to technology and innovations available in western European countries which enables it to offer better products in comparison to competitors. According to the representative of company number 2, Russian food companies are slow to adapt to innovations and technological advances in the food production industry: „Russian food companies are slow to acquire new habits and changes in their operations, they prefer to stay on the path they’re currently are“. Additional strength company number 2 enjoys in comparison to its Russian competitors is flexibility and openness to new and fresh ideas. It was claimed in the interview that Russian business is highly hierarchical and not very welcoming to the personal initiative that arises from employees. This discrepancy between the Lithuanian company and its Russian competitors gives certain advantages to company number 2. The main weakness for the company is that the management of the company is not used to working in Russia and not very knowledgeable in this market. Before the start of internationalization to the Russian market, the main threat was believed to be possible sanctions that could be enacted on the company to prevent Lithuanian business enterprises from operating in this country. Furthermore, the Russian political environment was seen as a potential source of threats that could undermine commercial activities of the company in this market: “There were worries that it will be difficult for us to export our products to Russia, and we will experience some sort of political pressure from state institutions such as government intervention, protectionism and obstacles to trade”. In addition to that, there were concerns that possible political unrest and general instability in Russia as well as economic failures and legislation unfavourable to the foreign companies in general could be threatening to a company. To further illustrate the position of company number 2 in the Russian market, table 8 is provided to demonstrate a SWOT analysis of its internationalization in Russia.

**Table 8.** SWOT analysis of internationalization in Russia pursued by company number 2.

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Adaptiveness to new technology.</li> <li>• Openness to innovative ideas.</li> <li>• Cutting edge technology.</li> </ul>	<ul style="list-style-type: none"> <li>• Not enough knowledge of the Russian market.</li> <li>• Language barrier.</li> </ul>

Threats:	Opportunities:
<ul style="list-style-type: none"> <li>• Political instability.</li> <li>• Rigid Russian bureaucratic system.</li> <li>• Unstable political environment.</li> </ul>	<ul style="list-style-type: none"> <li>• A large customer base that has not yet been reached.</li> <li>• Similar tastes of the customer from home country and target market.</li> <li>• Take advantage of brands designed specifically for Russia.</li> </ul>

Company number 3 stated, that their main goal of doing business in Russia is to maintain current positions in that market and avoid any troubles that could arise from an unstable political environment. It was highlighted that steadfastness and consistency are the main reasons why the company is in the Russian market: “what we need most of all is to make sure we have a reliable market where we can export our products”. Since the company does not plan to invest more resources into further expansion in the Russian market, the main opportunity is to simply continue exporting to Russia without experience any major obstacles. The main reason for this is a belief that the Russian market is not safe and reliable enough to invest a lot of time and energy in it. One of the main reasons for this position is the Russian political environment and barriers to internationalization arising from it: “We were anxious about possible political instability and ramification that could have to our operations there, meaning supply chain, delivery, reliably payment for our products and so on”. Such a position heavily influenced the entry strategy to the Russian market. Since the Russian political environment was considered by the company to be volatile and potentially adverse, a decision to find distributors that would bring products to the end buyer was chosen: “rather than trying to provide a license to Russian companies to produce our goods, we chose to sell our products to distributors in that market, who sell products to the end buyer”. According to the words of the company representative, without a personal relationship that existed for a long time, internationalization in Russia would hardly be pursued. Therefore, the main strength of company number 3 when it comes to internationalization in Russia is beneficial, reliable and dependable partners. Additionally, the company believes that they are capable of finding common ground with their Russian business counterparts based on similar mindsets: “it is my opinion, that worldview and mentality of Russian businessmen are closer to us than that of western European entrepreneurs”. That is another strength that company number 3 has. The main weakness of the company is the transportation and logistical difficulties since production often needs to be transported to far away places in Russia before distributors can deliver it to the end customer. As far as the threats go, the company named potential political instability and obstacles arising from political barriers to internationalization as the main threats that need to be addressed. To further illustrate the position of company number 3 in the Russian market, table 9 is provided to demonstrate a SWOT analysis of its internationalization in Russia.

**Table 9.** SWOT analysis of internationalization in Russia pursued by company number 3.

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Reliable partnerships with associates in the Russian market.</li> <li>• Ability to find common ground with business partners in Russia.</li> </ul>	<ul style="list-style-type: none"> <li>• Logistical and transportation difficulties.</li> </ul>
Threats:	Opportunities:



<ul style="list-style-type: none"> <li>• Potential obstacles to internationalization stemming from the Russian political environment.</li> <li>• Political pressure on the company by Russian bureaucratic and governmental structures.</li> </ul>	<ul style="list-style-type: none"> <li>• The rate of expansion and industrial development in the Russian far east offers additional opportunities for internationalization.</li> </ul>
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After investigating the internationalization elements of all three companies participating in the research it is evident that political barriers to success in the Russian market are of critical importance. All three companies stated that possible threats stemming from the Russian political environment are crucial to their business operations in this country. Therefore, it is paramount to identify how these political barriers influence internationalization and how to best overcome them. This will be done in the following part of the empirical analysis.

#### **4.2. Investigation of Political Barriers to Internationalization in Russia**

This part of the empirical analysis will seek to identify specific political barriers encountered by Lithuanian manufacturing companies pursuing internationalization in Russia. Additionally, the Russian political environment and its influence on Lithuanian companies doing business in this country will be investigated. To achieve this, it is necessary to first describe the Russian political environment and define political barriers that hinder the efforts of Lithuanian firms operating in the Russian market. To find out this, companies participating in this research were asked to give details regarding their experience of the Russian market and its political environment. An outline of these observations with several conclusions will be provided.

Company number 1 noted that the Russian political environment is a sum of many various factors including culture, economics, traditions as well as relations between Lithuania and Russia. The main theme outlined in the interview was how the Russian political environment determines relationships a company has to maintain with numerous business and administrative institutions: “Russian political environment affects partnership with our business counterparts and governmental structures such as customs offices, law enforcement agencies, exhibition organisers. It is fair to say that the current Russian political environment does not encourage economic activity in that country”. The company described the Russian political environment as a rigid set of rules and high standards that applied more scrupulously to foreign companies rather than domestic ones. Therefore, company number 1 believes that companies that seek to internationalize in Russia have to face specific barriers unique to this particular market and not present elsewhere. Moreover, it has been stated that avoiding these specific barriers is not possible as they are omnipresent within the Russian market. Additionally, the company specified that those barriers depend a lot on your country of origin. For example, a company from China can be viewed differently than a company from Europe: “How you are viewed in Russia depends a lot on the political environment and currently it is not very welcoming to Lithuanian firms”. Therefore, international relations are a significant factor determining what kind of political environment your company is going to face in the Russian market. It has been an experience of company number 1 that the political environment in Russia they have to operate in is malleable by outside forces such as world events geopolitical disagreements between Russia and Lithuania: “misunderstandings and complications are arising from different interpretations of political events even though attempts are made to avoid that and focus on the business operations. However, it is not easy to avoid a political environment since it creates an image of your company in the eyes of the Russian government, customers and general society”. According to the company, the Russian political environment changed considerably in the last 10 years as relations between Lithuania and

Russia deteriorated. Because of this, it had become increasingly more difficult for the company to pursue business in Russia, especially after the Ukrainian crisis which happened in 2014 when Lithuania sharply criticised Russia over the seizure of the Crimean Peninsula. Moreover, company number 2 mentioned that international events concerning bilateral relations between Russia and Lithuania also has a high degree of influence on their business activities in the Russian market: “we had a case when potential partners refused to do business with us because they feared complicated relations between two countries might undermine this potential partnership”. This is a clear example of the political environment affecting the goals of Lithuanian manufacturing company pursuing internationalization in the Russian market. Furthermore, company number 2 listed several complaints regarding the Russian political environment and how it changes depending on the level of friendliness or hostility the Russian government has to the home country (Lithuania, in this case) of the internationalizing firm. First, it was mentioned that the Russian government applies laws and regulations very selectively and without clear and consistent guidelines. It was hypothesised by company number 2 that food safety standards are exploited by the Russian authorities to penalize Lithuanian companies operating in Russia and to exert influence in the international arena: “I also believe that we Russian government sometimes enacts unfair requirements due to political reasons. For example, requirements for our products are very high and we are tested and checked more than our competitors”. Such requirements are not set for other firms and therefore are used as a tool to punish Lithuanian companies pursuing internationalization in the Russian market: “Russian agencies responsible for quality and standards of food somehow are very picky and investigative when it comes to our productions. They are sometimes very pedantic about the details, standards and regulations”. It needs to be acknowledged that there is no actual and veritable of Russian government using regulatory policy to create political pressure, however, companies interviewed did state that such practice is present in Russia. For example, company number 3 asserted their belief that they have experienced barriers to internationalization as a consequence of strained relationships between Lithuania and Russia: “Back in 2014 our production was banned completely from being exported to the Russian market. The official explanation was that there have been safety concerns and that our products do not fit requirements set by Russia to ensure quality”. According to the company, all of their materials exported to Russia were designed to fit the safety and security criteria both before and after their production was banned from entering the Russian market. It is widely assumed, albeit without conclusive proof, that this tactic is used by Russia not as a genuine concern for safety, but as a geopolitical tool. This tactic has been experienced by all three companies pursuing internationalization in the Russian market. Therefore, it is undeniable fact that relations between Lithuania and Russia have a lot of impact on the Lithuanian companies that do business in Russia. Moreover, it is also evident that geopolitics, diplomacy and international relations is one of the elements creating the Russian political environment in which Lithuanian companies must operate. Consequently, to fully comprehend the Russian political environment how it creates political barriers to internationalization it is necessary to investigate political relations between the two states (Russia and Lithuania). Furthermore, it is required to take into account how changing circumstances internationally might change the Russian political environment. For instance, companies participating in the research mentioned that their activity in Russia became mo complicated after 2014 events in Ukraine that led to sanctions against Russia and to Russian countersanctions that affected Lithuanian companies. Company number 1 remarked on this occurrence by sharing a statement regarding their day-to-day business management in Russia: “we must take into account additional costs imposed to us by new tariffs that arise from political motives. Naturally, it is not recognised by the Russian government as political moves, but it can be assumed that certain economic price is enacted because our home country is Lithuania and relations between two countries are complicated”. Naturally, the Russian government has a wide variety of methods in the realm of politics, economics and law to

hinder or undermine the internationalization goals of Lithuanian companies. It is complicated to provide unquestionable evidence that such strategy by the Russian government is undertaken since it can be denied or covered by multiple reasonable explanations and plausible deniability. However, information gathered in this empirical research and statements put forward by the interviewed companies suggests a high probability of such a strategy being employed by the Russian authorities. To further illustrate details regarding the connection between political barriers to internationalization and diplomatic relations between countries table 10 is provided. The table was created by analysing interviews conducted with the companies.

**Table 10.** The connection between political barriers to internationalization in Russia and geopolitics.

	Company number 1	Company number 2	Company number 3
Importance of relationship between the home country and target country to the success of internationalization.	It is believed by the company that Russian state institutions create complicated conditions on the ground to pursue business interest additional difficulties related to tax code and laws.	Companies claimed that internationalization is easier when relations between Russia and Lithuania is good.	Very high. The company feels that geopolitics affect their internationalization strongly.
The attitude of the Russian government to the Lithuanian companies pursuing internationalization in the Russian market	Not very welcoming. The political environment created by the Russian government is hostile to Lithuanian companies.	Changing over time. Not very positive at the moment.	Neutral at this moment, hostile and belligerent in the past (around the year 2014).
Obstacles experienced by the Lithuanian companies in the Russian market related to geopolitical tension between the two countries.	New tariffs, unfavourable changes to the tax code and laws that impact negatively company pursuing internationalization in the Russian market.	Unfair requirements and standards when it comes to checking food products manufactured by the company.	At the moment the company does not experience any particular obstacles, however, back in 2014 production of the company was banned for a short time from entering the Russian market.
The capacity of the companies to overcome barriers to internationalization arising from diplomatic tensions autonomously (micro solution).	Limited at best. The company does not have any means to affect change.	The company has no way of influencing the position and attitude of the Russian government. Therefore, only micro solutions can be applied.	The company managed to overcome barriers to internationalization arising from diplomatic tensions with the help of Russian business partners.

Table 10 indicates that geopolitics and relations between Russia and Lithuania affect the internationalization of Lithuanian companies operating in the Russian market. Moreover, it also shows that this effect has a lot of influence in deciding in many cases if internationalization efforts are successful or not: “relations between Russia and Lithuanian affect our company results as they

directly influence how Lithuanian companies are viewed by Russian state institutions”. It was discussed and demonstrated in the theoretical framework of this analysis that companies pursuing internationalization are not capable of changing geopolitical relations between countries to overcome political barriers (Calvelli and Cannavale, 2019). Therefore, before proposing solutions to overcoming political barriers of internationalization, it is necessary to first determine if those barriers come from geopolitical factors or the Russian political environment itself. This distinction is required, because if geopolitics is the prime reason for political barriers experienced by Lithuanian companies in the Russian market, then practical solutions can only be achieved by macro and not micro-actions. If geopolitics matters most when it comes to political barriers, then it must be recognized that most Lithuanian firms pursuing internationalization in Russia have no power to change relations between two countries or influence how international diplomacy is conducted. Consequently, there is little to none that a particular company can do to overcome these barriers on its own (micro solutions), and the only path to achieving a meaningful resolution to this problem can only come from a change in relations between the two countries (macro solutions). At the moment, it is amply demonstrated by data presented in this empirical analysis that geopolitics and relations between Russia and Lithuania play a role in the creation of political barriers that undermine the internationalization of Lithuanian companies pursuing business in the Russian market. However, before conclusions of its relevance can be made, it is essential to find out what other factors determine political barriers faced by Lithuanian companies in the Russian market.

A significant factor mentioned in the interviews by all three companies was the Russian business environment not related to politics directly. That includes cultural, economic, institutional, geographical and other elements. As has been demonstrated in the theoretical part of this thesis (Figure 3), these factors influence heavily political barriers to internationalization and so must be discussed and analysed. This analysis is critical for a full understanding of political barriers to internationalization present in the Russian market since an overview of academic literature and research papers revealed that political barriers do not simply arise from the political environment but are an amalgamation of various other factors (Calvelli and Cannavale, 2019). The following part of this empirical analysis is dedicated to these factors, that are not related directly to the Russian political environment nevertheless contribute to it.

All the companies interviewed stated that different currencies used by Lithuania and Russia are a major issue to their internationalization efforts: “Russian currency is weak and prone to devaluation concerning Euro which hinder trading across borders”. This statement was made by company number 1 that also mentioned that the Russian rouble tends to go up and down in comparison to the Euro which creates additional hurdles to the business activities of the company since currency conversion becomes troublesome to organise. Additionally, it was noted by company number 2 that the Russian business environment has a lot of obstacles that are not directly related to politics: “Russia has a completely different mindset and cultural values in comparison to western European countries and therefore we have to be adaptive and flexible”. Moreover, there are a lot of laws and legislative directives that are not present in Russia however must be abided by in Lithuania or European Union. A good example of this could be laws concerning environmental pollution and nature protection. These laws are critically important for any company doing business in Lithuania or generally in European Union. However, company number 2 stated in the interviewed that laws regulating pollution are much more relaxed and not nearly as strict: “in Russia laws concerning environmental pollution are different to the ones we have in Lithuania. In Russia, environmental laws are more relaxed compared to the ones we have in Lithuania and therefore it is easier to manage business activities”. On the other hand, Russian authorities have a tradition of subjectively and randomly changing tax codes without any logical and good reason to do so as mentioned by the company: “tax

policy, meaning tax rates and incentives, are prone to a lot of subjective changes that are not logical or explained by Russian authorities”. To give more weight to this claim, the company described how they had to pay additional tax or change the air conditioning of their facility when local Russian governmental authorities decided that ventilation in the factory is not sufficient and require safety improvements. Furthermore, this company also mentioned that there are obstacles to internationalization related to currency: “Currency fluctuations is another big thing we have to deal with since it affects our company a lot when we have to trade our products from Euro currency to Russian roubles. Russian governmental policy sometimes directly leads to rouble losing its value”. Company number 3 also maintained that the Russian government has a complicated tax structure and that it is not always easy to follow it: “we are concerned about the fact that Russian laws are difficult to follow because you can get lost easily in the bureaucratic jungle”. Therefore, the main economic barrier to pursuing business in Russia is the complicated tax code that is subjected to constant changes companies must learn how to adapt to. Consequently, the institutional barrier creating most obstacles to firms active in the Russian market is erratic and unpredictable state institutions that apply and make laws selectively and randomly. Another relevant aspect of doing business in Russia is the cultural environment companies pursuing economic activity in this country must face. This is something all three companies talked about. There were competing views provided by the companies on this subject. Company number 3 contemplated that culturally Russian business environment is not the very far way to realities present in Lithuanian: “worldview and mentality of Russian businessmen are closer to us than that of western European entrepreneurs”. On the other hand, company number 2 commented that Russian cultural business practices and norms are not like what they experience in Lithuania or western European countries. Meanwhile, company number 1 did not mention cultural barriers specifically. Such discrepancy regarding different viewpoints when it comes to cultural barriers in the Russian market can be explained by the fact that all three companies have different goals, positions and history in this market. The first company only works in the Russian market and therefore does not have much to compare with. The second company has considerably more international experience and therefore can compare and contrast cultural norms in Russia and elsewhere. While the third company admitted its position on this subject is heavily influenced by the fact that they have close personal relationships with several of their key business partners in Russia. Lastly, it must be recognized that an important barrier to doing business in Russia that is inherent to this country is geography. All three companies participating in this research mentioned that distances and logistical hurdles creates additional problems to effectively manage their entrepreneurial activities in Russia. Furthermore. It was mentioned by company number three that distance from the Russian market and final customer and firm’s production facilities in the home country (Lithuania) is a major problem to the internationalization. To further illustrate barriers that are not political, however, determine the success of Lithuania companies pursuing internationalization in Russia table 11 is provided.

**Table 11.** Barriers to doing business in Russia that are not political.

Barriers:	What issues these barriers create to the companies pursuing internationalization in Russia:
Institutional	Lack of consistent and stable legislative system, complicated tax code, governmental institutions are complicated to interact with, rules and regulations are applied subjectively, not enough clarity and straightforwardness.
Geographical	Large distances that need to be covered so products reach end buyer in Russia, logistical and transportation issues arising from unique geography of Russia (large and waste area).

Economic	Vulnerable currency, poor economic conditions, neglect of infrastructure, the dominance of large players in the market supported by governmental institutions, low ability and willingness of Russian customers to pay for products.
Cultural	Companies had different views on cultural barriers. Company number 2 stated that Russian cultural barriers are an important factor. Specifically, customer preference for Russian made products was mentioned. Meanwhile, company number 3 maintained that there are no specific cultural barriers in the Russian market.

The following part of the empirical analysis is devoted to discussing and investigating the Russian political environment that is a creation of various factors inherent to Russia. These factors are analysed by exploring information provided by the companies participating in this research as well as the interviews with the experts working in the field of internationalization of Lithuanian companies in the Russian market. It is carried out using Maxqda software which allows assigning meaning to certain phrases or sentences of the interviews analysed. Aspects of the Russian political environment mentioned by the respondents is designated to one of the several evaluations: neutral, favourable, risky, difficult, unfavourable and hostile. Therefore, it is possible to measure how respondents evaluated each aspect of the Russian political environment. Aspects evaluated were chosen based on the findings presented in the theoretical part of the master thesis. Table 12 is provided to put forward an additional explanation of why those specific aspects were chosen to be examined and evaluated.

**Table 12.** Aspects of internationalization that were evaluated.

Aspect to be measured	Reasons why this specific aspect was chosen
Political stability	Lack of political stability might undermine internationalization efforts since companies need assurances and certainty that their business operations will not be damaged by outside factors (Annushkina, Regazzo, 2020)
Administrative red tape	Corruption and favouritism by the government and administrative institutions undermine create unfavourable conditions to internationalization by undermining the faith in the rule of law (Becker and Vasileva, 2017).
The ability to influence politics	Companies will choose not to pursue internationalization in the foreign market in they feel they are treated unfairly and have no means to change it (Chen, Yu, 2016)
Actions of the Russian government	Government decisions play a major role regarding political barrier to internationalization (Samiee, Leonidau & Aykol, 2014).
Geopolitical influence on the political environment	Geopolitical relations between states determine the political environment and internationalization success of failure (Duran et. al., 2016).
Currency exchange rate policy.	Currency rate and its fluctuation are important factors concerning trade across countries and internationalization strategy (Cicatiello et. al., 2020).
Political conditions to enter the market	Political environment and political barriers to internationalization must be considered before a decision to enter a foreign market is made (Ozcan et al., 2018).
Political institutions	Weak, fragile and unreliable political institutions are a threat to internationalization (Fuentelsaz et al., 2020).

Evaluation of the aspects provided in table 12 demonstrated several important points describing the Russian political environment and its barriers to internationalization. First, respondents did not characterize the Russian political environment as favourable or even neutral in any of the aspects evaluated. There has been a single mentioning of several aspects as neutral (ability to influence

politics, actions of the Russian government, political institutions) and company number 3 stated two times that political conditions to enter the Russian market is favourable. However, it must be recognized that company number 2 benefit from having a significant and important relationship with their key partners in Russia that assisted this company to enter the Russian market: “Luckily for us, we have a trusting and personal relationship with several key distributors that assisted in our entrance to the Russian market”. Secondly, the Russian political environment was described as risky and difficult for companies to pursue internationalization. Several aspects were mentioned five, six or even eight times as being risky or difficult. For example, administrative red tape in Russia was named as difficult and risky, which means companies participating in the research find it challenging and potentially dangerous to deal with Russian bureaucratic structures and follow their regulations. Company number 3 commented: “One more thing we were concern about was the fact that Russian laws are difficult to follow because you can get lost easily in the bureaucratic jungle”. Similarly, Political institutions, in general, were evaluated by respondents as risky (mentioned 6 times) and difficult (mentioned 8 times). Company number 1 stated: “Russian state institutions create complicated conditions on the ground for us to pursue business interest by additional difficulties related to tax code and laws”. Additionally, political stability itself was measured as risky (mentioned 6 times) and difficult (mentioned 5 times). Those numbers demonstrate that political barriers to internationalization experienced by Lithuanian companies in the Russian market are related to the political institutions of this country. To provide further evidence for this claim, table 13 with aspects described and their evaluations are provided.

**Table 13.** Aspects of internationalization that were described and their evaluations.

Code System	Neutral	Favourable	Risky	Difficult	Unfavourable	Hostile
Political stability			6	5	5	6
Administrative red tape			4	6	6	5
Ability to influence politics	1	1	5	1	6	1
Actions of the Russian government	1		4	6	12	11
Geopolitical influence to political environment			3	6	8	13
Currency exchange rate policy			3	3	5	4
Political conditions to enter the market		2	2	3	5	7
Political institutions	1		6	8	16	14

Table 13 strongly indicates that Russian political institutions and actions of the Russian government are unfavourable and hostile to the internationalization pursuits of the Lithuanian companies in the Russian market. For instance, Political institutions were evaluated 16 times as unfavourable and 14 times as hostile in the interviews by the respondents. Actions of the Russian government were mentioned 11 and 12 times as hostile and unfavourable respectively. An expert interviewed stated: “For example, Foreign companies, including Lithuanian ones, have less advantageous opportunities to participate in public biddings for various governmental projects and offers. Additionally, Lithuanian companies do not have the same access to political infrastructure as Russian companies. Meaning, they do not enjoy fruitful and beneficial relationships with Russian political figures, political parties or governmental institutions”. Additionally, the influence of geopolitics and relations between Russia and Lithuania on the political barriers to internationalization was mentioned 13 times as hostile and 8 times as unfavourable. This provided proof to the thesis discussed previously that international diplomacy plays an important factor concerning the internationalization of Lithuanian manufacturing companies in the Russian market. Company number 2 stated: “attitudes of the Russian political institutions to our company depend a lot on how political relations are between Russia and

Lithuania”. Lastly, it is noteworthy that the issue of the currency exchange rate was raised several times by all the companies and the expert. Currency exchange rate policy determining the value of Russian Rouble to Euro was mentioned as difficult (3 times), unfavourable (5 times) and hostile (4 times). This data shows that the currency exchange rate and its relation to the Russian political environment is an important factor determining political barriers to internationalization in Russian. It is not the main cause for the political barriers to internationalization since other aspects of the Russian political environment were mentioned more times and evaluated more negatively, however, it is necessary to investigate the currency exchange rate and reasons for the devaluation of the Russian Rouble for political barriers to be dealt with successfully. Company number 1 commented on this issue: “Russian currency is weak and prone to devaluation concerning Euro which hinders trading across borders”.

To find out what specific actions of the Russian government and Russian political institutions create a hostile and unfavourable political environment for Lithuanian companies pursuing internationalization in the market it is necessary to investigate these aspects in a more detailed manner. To achieve this, three aspects of the Russian political environment that were mentioned as most hostile and unfavourable are further divided into more defined parts. These three aspects are: actions of the Russian government, geopolitical influence regarding the political environment and political institutions of Russia. The actions of the Russian government are divided into: favouritism, trade policy, frequent legislative changes, government control of the economy, tariff barriers. Geopolitical influence regarding the Russian political environment is divided to: relations between Russia and Lithuania, relations between Russia and the European Union, policies of protectionism, different Russian and Lithuanian viewpoints of international events, geopolitically motivated sanctions. Political institutions are divided to: regional (local) political institutions, political parties, the Russian government, the judiciary system of Russia, non-governmental organizations. Table 14 is provided to present explanations why those specific features of the Russian political environment were chosen.

**Table 14.** Features of the Russian political environment that were analysed.

Features of the Russian political environment chosen	Reasons why this specific aspect was chosen
Favouritism	Target country government that undertakes policies to unfairly support national companies at the expense of foreign firms creates additional political barriers to internationalization (Becker and Vasileva, 2017).
Trade policy	Laws and regulations influence and determines conditions for international trade and may undermine internationalization efforts (Marques et al, 2020).
Frequent legislative changes	Frequent changes regarding tax code and laws may affect internationalization adversely and create political barriers to it (Jimenez and Boehe, 2018).
Government control of the economy	The government might take different approaches when it comes to controlling the economics of a country and that might make internationalization harder or easier (Becker and Vasileva, 2017).
Tariff barriers	Tariffs to trade across borders create additional costs and can influence internationalization negatively (Kahiya, 2018).
Relations between Russia and Lithuania	“Relations between Russia and Lithuanian affect our company results as they directly influence how Lithuanian companies are viewed by Russian state institutions” (Company number 3)



Relations between Russia and European Union	International relations between Russia and western institutions might promote or undermine the internationalization pursuit of western companies in the Russian market (Sustar, 2003).
Policies of protectionism	Policies of protectionism can create unfavourable conditions for internationalization or chase away foreign companies from a home country market (Kahiya, 2018).
Different Russian and Lithuanian viewpoints of international events	Misunderstandings and complications are arising from different interpretations of political events even though attempts are made to avoid that and focus on the business operations (Company number 1).
Geopolitically motivated sanctions	Sanction against foreign companies pursuing internationalization can be used as leverage in the international arena (Duran et. al., 2016).
Regional (local) political institutions	Local government institution might create political barriers to internationalization (Kabongo, Okpara, 2019).
Political parties	Political parties are capable to influence the political environment which can be hostile or beneficial for internationalization depending on how the foreign company is perceived (Duran et. al., 2016).
Russian government	Any government (Russian or otherwise) has a major role in deciding political barriers to internationalization (Pekarskiene and Susniene, 2015).
Judiciary system of Russia	A strong and reliable judiciary system promotes internationalization. A weak and untrustworthy judiciary system undermines internationalization (Fuentelsaz et al, 2020).
Non-governmental organizations	Non-governmental organizations might promote internationalization and eliminate political barriers experienced by companies seeking to do business in a foreign market (Elg. et. al., 2015).

Features overviewed in Table 13 were assigned 4 values to determine how important they are as political barriers to internationalization: helpful, neutral, detrimental, very detrimental. These values illustrate how each feature influence internationalization of the Lithuanian manufacturing companies in the Russian market. Therefore, it is possible to measure the importance and relevance of each feature of the Russian political environment. Moreover, those features can be understood as political barriers that undermine the internationalization of the Lithuanian manufacturing firms in the Russian market. Table 15 is provided to display how many times these political barriers were mentioned and how they were evaluated by the respondents.

**Table 15.** Political barriers to internationalization in the Russian market.

Code System	Very detrimental	Detrimental	Neutral	Helpful
Non-governmental organizations			1	4
Judiciary system of Russia	1	4		
Russian government		3	2	
Political parties			1	
Regional (local) political institutions	13	5		
Geopolitically motivated sanctions	1	3		
Different viewpoints of international events		3		
Policies of protectionism			2	
Relations between Russia and European Union				
Relations between Russia and Lithuania	3	14		
Tariff barriers	1	3		
Government control of the economy	13	10		
Frequent legislative changes	8	15		
Trade policy		4	3	
Favouritism	15	17	2	

Information put forward in table 15 shows that several barriers to internationalization in the Russian market are viewed in a more negative light than others. For example, the favouritism experienced by Lithuanian manufacturing companies was mentioned 15 times as very detrimental and 17 times as detrimental to internationalization. This data indicates that favouritism and unfair privileges afforded to the local firms by the Russian government are relevant political barriers influencing the internationalization of Lithuanian manufacturing companies. On the other hand, such factors as different viewpoints of international events, tariff barriers, policies of protectionism and political parties were mentioned very few times or not mentioned at all as detrimental. For instance, company number 3 stated in the interview: “we believe competitors have more advantages because they receive different and better treatment from Russian authorities. They are not being subjected to the kind of scrutiny and regulation we are subjected to”. Furthermore, based on the findings provided in Table 15 it is possible to make several key conclusions. No features of the Russian political environment are judged as helpful to internationalization except non-governmental organizations. This shows that companies pursuing internationalization in the Russian market cannot expect assistance from any political structure because they are not seen as helpful by the Lithuanian companies pursuing internationalization in the Russian market. Moreover, regional political institutions were seen by the respondents as much more detrimental and damaging to the internationalization than political parties or the Russian government generally. The best proof of this is a fact that Russian political parties were mentioned only once by the respondents and that single time they were evaluated as neutral. Furthermore, the Russian government was mentioned three times as detrimental and two times as neutral when it comes to its influence on internationalization. As a result, it can be concluded that neither Russian political parties nor the Russian government is seen as political barriers by the experts and companies that participated in this research. On the other hand, Regional (local) Russian political institutions have been evaluated as very detrimental (13 times) and detrimental (5 times) to internationalization. This demonstrates that political barriers to internationalization in the Russian market exist mostly on the local level. Consequently, companies should be better equipped to deal with barriers on the local level since local political structures are more susceptible to influence by outside actors (Jimenez and Boehe, 2018). This observation might be useful when solutions to the problem of political barriers to internationalization are discussed. Furthermore, an important political barrier mentioned many times in the interviews as detrimental (10 times) and very detrimental (13 times) is government control of the economy. This finding demonstrates that the Russian government strictly controls the economy of the country hence creating political barriers for companies to pursue successful internationalization. As demonstrated by the academic literature, the government’s control of the economy is an important factor determining the outcome of internationalization (Katz et al., 2021). Furthermore, an expert interviewed stated: “there are too many institutions in Russia that regulate and limit entrepreneurs to carry out commercial projects and ideas. Furthermore, it is asserted by local Russian firms that the Russian government does not support and create favourable conditions for business to prosper“. Additionally, frequent legislative changes were evaluated as very detrimental and detrimental to internationalization 8 and 15 times respectively. This shows that the Russian political environment is prone to constant changes regarding laws regulating business practices. This tendency might undermine internationalization since companies pursuing business operations across borders need stability and steadfastness (Fletcher et al., 2021). Lastly, it is important to note that relations between Russia and Lithuania played an important role in creating political barriers to internationalization in the Russian market for Lithuanian manufacturing companies. It has been mentioned 14 times as detrimental to internationalization in Russia. Therefore, any proposed solutions to overcome political barriers to internationalization in Russia must take into account how geopolitics and relations between countries affect internationalization as have been discussed previously in this research paper.

In conclusion, it needs to be recognized that most political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market arise from the attitude of the Russian political institutions to the economy and companies pursuing a business interest. Moreover, most of the political barriers are created by local political institutions rather than by the political parties or leaders in the Russian government. Furthermore, international relations influence the existence of political barriers to internationalization in the Russian market. All of these points must be acknowledged for effective solutions to overcoming these barriers to be proposed.

### **4.3. Solutions to Overcoming Political Barriers of Internationalization**

This part of the master thesis is devoted to proposing solutions to overcoming political barriers of internationalization experienced by Lithuanian companies operating in the Russian market. Solutions put forward are based on the theoretical and empirical analysis carried out in this thesis. Main political barriers are already defined as favouritism, frequent legislative changes and strict government control of the economy. Moreover, it was concluded that most political barriers in the Russian market are created by the local political structures and that diplomatic relations between Russia and Lithuania influence the internationalization of Lithuanian manufacturing companies. Therefore, several solutions to overcome these specific barriers are proposed.

The first solution for Lithuanian manufacturing companies struggling to overcome barriers to internationalization in the Russian market is to cultivate mutually beneficial partnerships with local companies and key people in Russian political structures. It has been demonstrated in the empirical analysis that having a supportive and reliable partnership with key players in the Russian market greatly improves chances to overcome political barriers to internationalization. For example, company number 3 commented in the interview about certain problems arising from the Russian political environment: “We had to spend a lot of time and energy communicating with Russian governmental agencies to solve this issue. Eventually what it came down to, was our customers lobbying on our behalf and supporting us to resume our partnership”. Moreover, theoretical literature also supports this view regarding the importance of cultivating long term partnerships to pursue more effective internationalization regardless of the political barriers. Companies can build resilient and strong social networks of both business firms, non-governmental organizations and political institutions to counter various political barriers to internationalization in a foreign market (Bai et al., 2021). For instance, favouritism as a political barrier to internationalization in the Russian market can be negated if local partners are beneficiaries of these policies and use these benefits to promote mutual interests. Consequently, any Lithuanian company that seeks to pursue internationalization in the Russian market should take time and effort to research potential organisations they could form partnerships or business alliances. Additionally, both parties need to make sure that they are working towards achieving the same goal. This is necessary for the durability and productiveness of the partnership formed. Discussing desirable outcomes, roles and strategies of the potential partnership is a requirement for successful internationalization. Furthermore, Lithuanian manufacturing companies should be discouraged to pursue internationalization in the Russian market without any supportive network and structural assistance. Both empirical and theoretical research amply demonstrated that such a strategy is complicated, difficult and not very likely to yield a positive result. Expert number 2 remarked: “Main political barrier to internationalization in Russia is a fact that it is very difficult for Lithuanian manufacturing companies to do business in Russia without having reliable and supportive local business partners. All Russian political and judiciary institutions defend the interests of Russian citizens first and foremost”. Moreover, the Russian political environment is unwelcoming for new players in the market and entrance costs are high (Becker and Vasileva, 2017).

Therefore, first solution to overcome political barriers to internationalization in the Russian market is to build a network of partners that are reliable, cooperative and productive.

The second solution proposed is to learn how to navigate and adapt to legislation, business regulations and laws enacted by the Russian government. It is evident that global markets, including Russia, have several different legislations in place, which creates a complicated and intricate background for conducting internationalization. Empirical research revealed that frequent legislative changes by Russian political institutions and strict governmental control over the economy have a detrimental influence on internationalization pursuits of Lithuanian manufacturing companies in the Russian market. Consequently, understanding Russian laws and regulations and how they apply in real business practice are essential in achieving success in this particular market. Additionally, the review of theoretical literature supports this solution. It was theorized by academic authors exploring possible methods to overcome political barriers to internationalization that remaining adaptive and flexible leads to the more positive outcome of internationalization and assists companies to overcome various political barriers to internationalization (Annushkina and Regazzo, 2020). Therefore, it is necessary to understand the legal and political landscape of the Russian political environment that has to be navigated and to make sure the company has both material resources and expertise to adjust to changing circumstances. To achieve this, companies pursuing internationalization in the Russian market must be aware of the Russian political system, judiciary, customs, laws and regulations. Moreover, they have to be watchful and alert of any potential developments that could undermine their internationalization efforts that could come in a form of border control and customs law, taxations laws, labour standards, intellectual property protection laws, legislative changes and so on. To summarize, to overcome political barriers to internationalization arising in the Russian political environment, Lithuanian manufacturing companies must stay ahead and try to anticipate them in advance.

The third solution to political barriers to internationalization in the Russian market is to enter this market as a short-term venture exclusively and avoid long term goals associated with doing business in the Russian market. Data gathered by conducting interviews would suggest that the Russian market offers opportunities to accomplish objectives and make money in a short period of time. For example, expert number 2 commented: “Russian markets presents the opportunity to make more money and achieve profit easier and faster, so many companies opt for it”. On the other hand, empirical research demonstrated that the Russian market presents several very serious political barriers that could threaten the internationalization of Lithuanian manufacturing companies if they stay in this market for too long. It was concluded that political barriers to internationalization could not only hinder but eliminate any potential benefits companies acquire in the Russian market initially. Favouritism, strict governmental control over the economy and frequent legislative changes and other barriers create a political environment, which is not accommodating for long term internationalization pursuits. Company number 2 commented: “Naturally, the political environment of Russia is a very real and relevant concern we have. There are worries that might experience some sort of political pressure from state institutions such as government intervention, protectionism and obstacles to trade”. Other participants of this research also mentioned that obstacles to operating in the Russian market grow in number and strength over time: “It is fair to say that current Russian political environment does not encourage economic activity in that country and is getting more and more complicated to do business in this country” (company number 1). Therefore, it would be a wise strategy to pursue internationalization in the Russian market for a limited time only. Additionally, Lithuanian manufacturing company entering the Russian market should have a clear and coherent exit strategy that would anticipate how long internationalization will be carried out in this specific market and under what conditions should it be terminated. Consequently, such a solution implies several

secondary propositions for Lithuanian manufacturing companies seeking to overcome political barriers to internationalization in the Russian market. First, such companies should take actions to limit exposure in this market by attempting to locate their facilities and employees outside of Russia. Since long term strategy is not optional and carries additional risks to internationalization it is not worthwhile to invest a lot of resources in building facilities or hiring a lot of employees in the Russian market. As a result, such investment should only be made after significant consideration of all the risks involved and with necessary precautionary measures, meaning other solutions to the problem of political barriers to internationalization should be applied simultaneously. The second proposition for Lithuanian manufacturing companies related to pursuing internationalization in the Russian market is diversification. Since the Russian market is volatile and has series of significant political barriers to internationalization it is unwise and short-sighted for companies to focus all of their attention on this particular market without exploring alternatives markets to internationalization. Any internationalization strategy in the Russian market should not be established on an assumption that the political environment will offer stable and steady conditions for business operations. Additionally, due to the existence of serious and possibly unsurpassable political barriers in the Russian market, Lithuanian manufacturing companies should keep their options for internationalization as open as possible and be able to replace the Russian market if their position in it becomes untenable.

Solutions proposed to overcome political barriers to internationalization in the Russian market up to this point have been within the power of the company to put into effect. However, empirical research revealed that diplomatic relations between Russia and Lithuania play an important role in deciding political barriers encountered by Lithuanian manufacturing companies in the Russian market. Therefore, even though there are micro solutions to political barriers that rest on the actions of the companies operating in the Russian market, there are also macro solutions that are outside of firms' control and depend on the geopolitics and steps taken by governments of Russia and Lithuania. Academic literature review carried out in this master thesis strongly support this statement. It asserts that home-host country links are a crucial factor deciding barriers to internationalization (Cuervo-Cazurra, 2018). Moreover, domestic politics and characteristics of the home country concerning the target country could have a bigger influence on the success or failure of internationalization than measures taken by a company active in a foreign market. It is especially true when relations between home and host countries are strained and complicated. Such international conditions and geopolitical realities inevitably lead to the formation of political barriers to internationalization. Furthermore, overcoming these barriers by micro solutions taken by the companies themselves rather than by the political structures of the home country could be futile. The empirical analysis also provides significant evidence this proposition has considerable merit. Several companies interviewed mentioned that relations between Russia and Lithuania impact political barriers they have to face in the Russian market. For instance, company number 3 remarked: "Whenever there are tensions regarding matters of relations between Russia and Lithuania, we are the ones feeling the heat so to speak. And naturally, this creates a less favourable political environment for us to operate in". Furthermore, in the interviews conducted both the companies and experts participating in this research mentioned many times that relations between Russia and Lithuania have a detrimental influence on the political environment and create additional political barriers for Lithuanian manufacturing companies in the Russian market. Therefore, macro solutions to improve diplomatic relations between host and home countries must be suggested as a method to overcome political barriers to internationalization in the Russian market. Those solutions should be taken by the Lithuanian government. First, Lithuanian public officials should refrain from overly critical comments regarding Russia and its international actions. Additionally, Lithuanian politicians should find ways to find common ground with the Russian government. If such compromise is not possible

due to outside reasons, steps should be taken to minimize the damage done to Lithuanian companies pursuing internationalization in the Russian market. This could be achieved by providing support for Lithuanian companies active in the Russian market in a form of lobbying on their behalf with the Russian government. Additionally, the Lithuanian government could encourage national companies that invest in Russian to be more cooperative and form united organizations to overcome political barriers to internationalization together rather than separately. This approach to the problem of political barriers experienced by the companies in the foreign markets is more effective than trying to tackle them without any association with firms that face similar predicament (Freixanet and Renart, 2020). To summarize, macro solutions to the issue of political barriers in the Russian market should be considered and employed by both the Lithuanian government and manufacturing companies for the overall success of internationalization in Russia.

#### 4.4. Discussion and Recommendations

After investigating interviews carried out with representatives of the companies and the experts, the results of the empirical research are summarized in the table below (see Table 16). It was determined that there are several macro and micro solutions to political barriers to internationalization faced by Lithuanian manufacturing companies in the Russian market.

**Table 16.** Solutions to political barriers to internationalization in the Russian market.

Macro solutions:	Micro solutions:
Improvement of diplomatic relations between Russia and Lithuania.	Forming mutually beneficial partnerships with local Russian companies to gain assistance in overcoming political barriers to internationalization.
Holding back from an overtly critical judgement of Russia by the Lithuanian political figures.	Choosing to pursue only short-term internationalization in the Russian market due to political risks involved.
Finding mutually beneficial compromise between Russia and Lithuania regarding the economic and political relations of both countries.	Limiting exposure to the Russian market by locating facilities or employees outside of Russia.
Lobbying by the Lithuanian government on behalf of Lithuanian manufacturing companies that pursue internationalization in the Russian market.	Diversifying internationalization by expanding across several foreign markets and not focusing on the Russian market exclusively.

**Discussion.** This master thesis has shown that political barriers to internationalization play a relevant role in deciding the success or failure of Lithuanian manufacturing companies in the Russian market. Furthermore, solutions to overcoming these barriers are diverse and depend on many factors related to the Russian political environment, geopolitical circumstances, position of the company in the Russian market, the experience gathered operating in the foreign markets and so on.

Firstly, the empirical study has shown that the Russian political environment is unfavourable and hostile to Lithuanian manufacturing firms pursuing internationalization in the Russian market. Moreover, there are considerable political barriers present in the Russian market that stand in a way of a positive outcome of internationalization. These findings are consistent with the research work of Becker and Vasileva (2017), who analysed the Russian political environment and highlighted that both home companies and foreign firms active in the Russian market face various threats and obstacles arising from the unique development of the Russian political economy. Moreover, additional research allowed to single out several specific political barriers experienced by Lithuanian

manufacturing companies in the Russian market: frequent legislative changes, strict Russian government control over the economy and unfair advantages granted to Russian home companies at the expense of foreign companies pursuing internationalization in Russia (favouritism). This corresponds to Fuentelsaz et al. (2020), who stated that institutional advantages granted to domestic firms inevitably undermines the internationalization of foreign companies and Duran et al. (2016), who explored how the absence of political connections in a foreign market could be detrimental to the long-term goals of the company pursuing internationalization.

Secondly, it was determined that diplomatic relations between Russia and Lithuania have considerable influence regarding political barriers to internationalization experienced by Lithuanian manufacturing companies in the Russian market. It was shown that deterioration of the diplomatic relations between the two countries leads to more severe political barriers to internationalization in the Russian market experienced by Lithuanian manufacturing firms. These results complement existing studies that illustrate the correlation between geopolitics and decisions made by firms concerning internationalization (Elg et al., 2015). Companies expanding internationally must take into account existing political connections between their home and target countries if they want to be successful in their international endeavours (Marques et. al., 2017). Positive geopolitical conditions can greatly improve the chances of a successful outcome of internationalization. On the other, strained diplomatic relations between the home country of a company and the country was chosen for internationalization might hinder efforts of foreign expansion or even derail it completely. Research conducted concurred with other studies (Briušková, 2013), that revealed how antagonisms between Russia and Lithuania concerning geopolitics, creates less favourable conditions for Lithuanian companies active in the Russian market. Therefore, geopolitics is an important aspect of a global economy that must be considered to propose practical solutions to political barriers to internationalization (Zhang, et al., 2016).

Then, after investigating the Russian political environment and influence of geopolitics regarding the internationalization of Lithuanian manufacturing firms in the Russian market, a series of solutions were proposed. They were divided into two distinct groups. The first group was micro solutions that can be applied independently as they are within the control of a company. Subsequently, in line with studies analysed in the theoretical part of this master thesis (Cuervo-Cazurra et al., 2018), it was recognized that some political barriers of internationalization are too great for a single company to overcome without assistance from political institutions of the home country. Therefore, the second group of macro solutions to overcome political barriers to internationalization in the Russian market was proposed. These solutions should be employed not by Lithuanian manufacturing companies pursuing internationalization in Russia, but by Lithuanian state institutions.

Lastly, it must be acknowledged that macro and micro solutions are not mutually exclusive. They could and should be applied as an integral part of the internationalization strategy pursued by Lithuanian manufacturing companies that do business in the Russian market. Additionally, it needs to be recognized that because of the nature of the Russian political environment, micro solutions might not be enough to carry out effective internationalization in the Russian market. Moreover, macro solutions could be difficult, dangerous or even outright impossible to implement due to a combination of factors related to geopolitical rivalries and Lithuanian national security. Consequently, Lithuanian manufacturing companies pursuing internationalization in the Russian market must face an uncertain future and ambiguous outcome of their efforts to overcome political barriers present in this market.

**Recommendations.** The findings of this empirical research have relevance for practice. Consequently, several suggestions will be provided to Lithuanian manufacturing companies pursuing internationalization in Russia (micro solutions) and Lithuanian public institutions and politicians (macro solutions).

Lithuanian companies facing political barriers to internationalization in the Russian market should take steps to find reliable partners in the Russian market. The results of the empirical research revealed the importance of having a supportive network of mutually beneficial partnerships with local businesses. Since it was determined that the Russian political environment is unfavourable to Lithuanian companies, it is strongly advised against pursuing internationalization in this market independently and without assistance from inside actors. Furthermore, if Lithuanian manufacturing companies operating in the Russian market make a decision or are forced to be self-reliant, they should be aware of potentials risks arising from political barriers existing in this specific market. Therefore, they should have a clear exit strategy and opt for a short-term internationalization, that could maximize profit as soon as possible rather than having plans to stay in the Russian market for a prolonged time period. Additionally, to reduce risk stemming from the volatile Russian political environment, Lithuanian manufacturing firms should limit exposure to these threats by locating facilities and employees outside of Russia. Lastly, the study confirmed that conditions in the Russian market are hostile to foreign firms and that there are several major political barriers that undermine the internationalization efforts of Lithuanians manufacturing companies active Russia. Consequently, Lithuanian companies are advised to diversify internationalization by expanding across several foreign markets and not focusing on the Russian market exclusively.

Since it was concluded that diplomatic relations between Russia and Lithuania influence political barriers to internationalization in the Russian market, several recommendations are provided to Lithuanian public institutions and politicians (see Table 17). The goal of these recommendations is to create a more favourable political environment in Russia for Lithuanian manufacturing companies to operate in.

**Table 17.** Recommendations provided to Lithuanian public institutions and politicians.

Macro solutions:	Institutions & political actors:	Actions to be taken:
Improvement of diplomatic relations between Russia and Lithuania.	<ul style="list-style-type: none"> <li>Ministry of Foreign Affairs of the Republic of Lithuania.</li> <li>Lithuanian political parties.</li> <li>Non-governmental organizations that support Lithuanian companies pursuing internationalization.</li> </ul>	<ul style="list-style-type: none"> <li>Taking the more neutral stance on the geopolitically contentious issues.</li> <li>Public relations campaign in Russia promoting image of Lithuanian.</li> </ul>
Finding a mutually beneficial compromise between Russia and Lithuanian regarding the economic and political relations of both countries.	<ul style="list-style-type: none"> <li>Ministry of Foreign Affairs of the Republic of Lithuania.</li> <li>President of the Republic of Lithuanian.</li> </ul>	<ul style="list-style-type: none"> <li>Promoting Lithuanian FDI in Russia.</li> <li>Seeking to separate political issues from economic ones.</li> </ul>
Holding back from an overtly critical judgement of Russia by the Lithuanian political figures.	<ul style="list-style-type: none"> <li>Lithuanian political parties.</li> <li>Lithuanian public officials.</li> </ul>	<ul style="list-style-type: none"> <li>Using diplomatic language that is polite and civil when speaking about Russia.</li> <li>Withholding comments regarding geopolitics and Russia.</li> </ul>



<p>Lobbying on behalf of Lithuanian manufacturing companies that pursue internationalization in the Russian market.</p>	<ul style="list-style-type: none"> <li>• Non-governmental organizations that support Lithuanian companies pursuing internationalization.</li> <li>• Ministry of Foreign Affairs of the Republic of Lithuania.</li> <li>• Ministry of the Economy and Innovation of the Republic of Lithuania.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitating cooperation between Lithuanian companies that pursue internationalization in the Russian market.</li> <li>• Creating a governmental organization that would provide tangible material and diplomatic support for Lithuanian companies active in the Russian market.</li> </ul>
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**Future research.** There are several key considerations for the following studies on this topic. First, this research investigated Lithuanian manufacturing firms only, without analysing the internationalization of companies working in the service sector. Therefore, it is necessary to supplement further studies with an analysis of Lithuanian companies active in other sectors of the economy as well. Secondly, this research did not explore the viewpoints of the experts and the Lithuanian manufacturing companies pursuing internationalization in Russia separately to find out if there is a difference in how they approach the problem of overcoming political barriers present in the Russian market. Future studies should compare data collected from the experts and information provided by companies active in the Russian market. Lastly and most crucially, succeeding work on the subject investigated in this master thesis should determine the relationship between macro and micro solutions to overcome political barriers to internationalization present in the Russian market. Moreover, it should be established if macro or micro solutions are more relevant to suggest more effective actions both for Lithuanian companies operating in Russia and Lithuanian state institutions.

## Conclusions

1. Overview of the current Russian political environment demonstrated that Lithuanian manufacturing companies active in the Russian market face serious political barriers to their internationalization. However, the exact nature of these barriers, their origins and their impact on internationalization has not been widely investigated. Moreover, problem analysis of internationalization and the Russian political environment revealed that there are no clear solutions of how Lithuanian companies can overcome political barriers to internationalization in the Russian market. Nevertheless, it is relevant to mention, that even though several previous studies explored how certain sectors of the Lithuanian economy have been affected by sanctions enacted against them by the Russian government, the importance of the Russian political environment for Lithuanian manufacturing companies pursuing internationalization in Russia is still not clear. Additionally, it was revealed that Lithuanian political institutions and international diplomacy have a role to play regarding political barriers experienced by Lithuanian companies operating in the Russian market. However, the relationship between geopolitics and political barriers to internationalization in the Russian market has been underestimated. Furthermore, there are few suggestions for Lithuanian state institutions to make the Russian political environment more favourable to Lithuanian manufacturing companies active in Russia.
2. The conception of barriers to enter the foreign market was presented to demonstrate that without overcoming these barriers no successful internationalization is possible. Although several studies offered different frameworks and the importance of various barriers, it was determined that political barriers to internationalization are critical. Moreover, a theoretical overview has shown how political barriers interact with other barriers to internationalization. Favouritism, protectionism, trade barriers, hostile political institutions and other aspects relevant for internationalization were discussed to comprehend their impact on overcoming political barriers to internationalization. The review of previous studies underlines the relevance of the political environment of the target country for the outcome of internationalization, although a limited number of studies are dedicated to the subject of political barriers in the Russian market. Additionally, theoretical solutions on how to overcome political barriers to internationalization were analysed. Previous studies on this topic suggest several solutions to overcoming political barriers to internationalization. First, it is advised to form strong and long-lasting relations with key people and companies in the foreign market. Secondly, lobbying is recommended to create a more favourable political environment for internationalization. Lastly, a theoretical overview highlights the importance of home country support regarding overcoming political barriers to internationalization in a foreign market. However, the literature analysed covered a broad internationalization strategy. Therefore, a specific investigation targeting the Russian market and Lithuanian manufacturing companies pursuing internationalization in Russia is needed.
3. To find out what are political barriers to internationalization in the Russian market and propose solutions to overcome these barriers, research methodology and conceptual framework were composed. Five interviews were conducted with representatives of Lithuanian manufacturing companies pursuing internationalization in the Russian market and experts in this field. These interviews were analysed using the qualitative research method. To achieve this, several research instruments were employed. First, data collected was explored using SWOT analysis to determine the position in the Russian market of each company interviewed. Secondly, MAXQDA software program was used to identify which political barriers are the most damaging and threatening to the internationalization of Lithuanian manufacturing companies in the Russian market. It was

accomplished by assigning value to various statements found in the interviews conducted. Lastly, based on the theoretical analysis and empirical exploration solutions to overcome political barriers identified were put forward.

4. The empirical study has demonstrated that there are serious and significant political barriers to internationalization present in the Russian market. Moreover, it was established that these barriers undermine the business activities of Lithuanian manufacturing companies operating in Russia. The outcome of this research corresponds to the review of theoretical literature investigating political barriers to internationalization. Additionally, the results of this study supplements existing knowledge of how political barriers influence internationalization and confirm that the political environment is a crucial factor in deciding if a company is going to be successful in a foreign market. Furthermore, the empirical analysis revealed that there is a correlation between international relations and political barriers experienced by Lithuanian manufacturing companies in the Russian market. Specifically, it was substantiated that poor diplomatic relations between Russia and Lithuania inevitably lead to an unfavourable Russian political environment concerning the internationalization of Lithuanian manufacturing companies in the Russian market. Consequently, proposals on how to overcome barriers to internationalization in the Russian market were separated into macro and micro solutions. A distinction was made between the two sets of solutions. Macro solutions were directed at Lithuanian state institutions responsible for promoting and supporting Lithuanian companies pursuing internationalization. Micro solutions were suggested to the Lithuanian companies themselves. These solutions (micro) are within the power of companies to implement independently and do not require the intervention of Lithuanian political institutions. Therefore, empirical research findings might be valuable both for Lithuanian manufacturing companies struggling to overcome political barriers to internationalization in the Russian market and Lithuanian governmental agencies looking for strategies to support national firms active in the Russian market. Taking into account the results, Lithuanian companies pursuing internationalization in the Russian market are advised to form beneficial partnerships with local Russian business, avoid having plans to operate in the Russian market for a long period of time, limit exposure to potential political risks by not locating facilities in Russia and diversifying their internationalization rather than focusing on the Russian market exclusively. Lithuanian state institutions are suggested to improve relations between Russia and Lithuania by attempting to find a compromise regarding the economic and political disagreements of both countries. Moreover, this research advocates lobbying by the Lithuanian government on behalf of Lithuanian manufacturing companies operating in Russia as a solution to overcome political barriers to internationalization existing in the Russian market.

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## Appendices

### Appendix 1. Interview with the company number 1.

**1. Briefly describe your company. What do you produce? How long have you been working in this field? What is the history of your company? What is the number of people working in your company?**

Our company produces automotive parts, mainly compressors, for various heavy vehicles such as trucks, tractors, harvesters and construction machinery. Our company in current state was founded in 1995, however it traces its roots back to 1960s when air compressor factory was built to manufacture goods for the Soviet heavy machinery industry. Factory was not operational after the fall of the Soviet Union, however it was reopened as private enterprise later. Currently, we have approximately 100 people working in our company.

**2. What conditions exist in the home market? How did it influence decision to expand? Why Russian market was chosen for expansion?**

Since the very beginning of manufacturing compressors, production was aimed at machinery operating in the Soviet Union, therefore our compressors were adaptable to equipment produced in Soviet Union. Our factory was part of large complex of automotive manufacturing and was not designed to operate as a separate entity with ability to choose target market. This situation arose due to certain political and economic reality that was present back then. Since Soviet Union was a planned economy, everything was designed to fit a specific place and serve a specific purpose, including our factory. Nowadays, our operations remain mostly unchanged, we manufacture goods that are necessary to the former automotive complex that is now scattered through former Soviet republics such as Ukraine, Kazakhstan, Belarus, however, most of our customers are in Russia as it inherited the largest part of Soviet automotive manufacturing complex. It is important to note that there are no practical alternatives for Russian market when it comes to our company. It is possible in theory, however that would require huge investments in terms of money and time. We would have to prepare whole new line of production designed to completely different market. Basically, we would need to rearrange entire operation of our business from scratch. Moreover, even if we managed to successfully overhaul our entire operations and switch our exports from Russia to some other country, we would then have to contend with local competitors, that are already entrenched in a market we would be trying to enter. All of these factors make it so, that there is no practical alternative for Russian market when it comes to our business operations abroad.

**3. Goals of expansion to the Russian market. What opportunities are there in this area for the company?**

There are no specific goals of expansions to the Russian market. We try to maintain our current level of market share in this country. If opportunity presents itself, an attempt to acquire additional market share is undertaken by reaching out to new potential clients, however it is difficult since most of our customers have been part of our operations for a long time and it is difficult for newcomers to enter this market, there are hardly any new actors in Russia that start business in automotive fields out of the scratch. Therefore, we deal with customers that we have done business with for a long time. On the other hand, we are looking forward to perhaps proposing our products to factories that built spare parts for machines in agro industry.

**4. What threats did the company expect to face before pursuing internationalisation?**

There were several threats we anticipated and still have to deal with. First, Russian currency is weak and prone to devaluation in relation to Euro which hinder trading across borders. Additionally, there is a constant threat that EU will enact sanction to specific Russian industry sections or factories which will bring response from Russian government in a manner of counter sanctions. Additionally, I need to mention the fact that banks in Lithuania consider Russian market to be risky and not very promising. Therefore, they are not interested in converting rouble to other currencies and do not give commercial credits to companies pursuing business in Russia. As a result, we had no choice, but to demand from our customer to pay for the production they buy in advance. Moreover, we organize currency conversion in Russian banks rather than in Lithuanian ones. This had the result of making our sales more difficult and complicated as well as increased our expenses when dealing with banks as we have to organize currency conversion additionally rather than rely on the banking and financial institutions we have in Lithuania.

**5. What was the entry choice to the Russian market? Why was this option chosen?**

Entry choice was determined by past history of the company and close geographical proximity as our factory was part of automotive production complex of former Soviet Union. Ties and trading practices existed for a long time, we just continued it. From where we are standing there were no other choice for us to sell our production but Russian market. Also, we have a local trade office and several representatives in Russia to speak on behalf of our company.

**6. Was there any assistance to internationalization from the institutions of the Lithuanian state?**

Assistance from the institutions of the Lithuanian state is non existing. Lithuanian government has a list of markets that are encouraged and supported for Lithuanian firms to expand to. Russia is not in that list, therefore companies that do business in Russian market are not supported in any way.

**7. What political barriers to internationalization did company experienced?**

First, visa requirements are an obstacle since we need to get proper papers to travel in and out of Russia, commercial visas are exceptionally complicated since they take a lot of time to get and imposes additional costs. Moreover, Russian government tries to generate local production and strengthen Russian economy by encouraging buying goods and equipment that is made of materials extracted in Russia or even produced entirely in Russian rather than foreign markets. Also, relations between Russia and Lithuanian affect our company results as they directly influence how Lithuanian companies are viewed by Russian state institutions.

**8. How did they obstruct your internationalization efforts?**

Mostly by creating unfavourable conditions to operating in Russia either by legislative action, favouritism or undermining our goals. For example, we must take into account additional costs imposed to us by new tariffs that arise from political motives. Naturally, it is not recognized by Russian government as political moves, but it can be assumed that certain economic price is enacted because our home country is Lithuania and relations between two countries are complicated. Basically, Russian state institutions create complicated conditions on the ground for us to pursue business interest by additional difficulties related to tax code and laws specifically designed to hinder trading with Lithuanian companies.

**9. How Russian political environment influence your business activity within that country?**

Russian political environment is a result of Lithuanian and Russian political, economic and cultural relations. It affects partnership with our business counterparts and governmental structures such as

customs offices, law enforcement agencies, exhibition organisers. It is fair to say that current Russian political environment does not encourage economic activity in that country and it

is getting more and more complicated to do business in this country. For example, there are misunderstandings and complications arising from different interpretations of political events even though attempts are made to avoid that and focus on the business operations. However, it is not easy to avoid political environment since it creates image of your company in the eyes of Russian government, customers and general society. It is necessary to understand that political environment is not clearly visible and perceivable, yet it sets a tone for a lot of interactions in Russia. How you are viewed in Russia depends a lot on political environment and currently it is not very welcoming to Lithuanian firms.

**10. What actions did you take to overcome barriers to internationalization stemming from Russian political environment?**

There is little one company can do to influence political environment of entire country, especially when that country is as large as Russia is. I do not believe we can affect it on our own, it is definitely beyond our capabilities. What we focus on doing is providing best quality production with the least cost. Basically, we try to outperform our competitors by delivering better products for better price however cliché it sounds. I believe that is the best strategy to overcome barriers that arise from Russian political environment as there is little else that could be done. However, we do try to maintain positive relations with customers in industrial regions of Russia as it is the only way to counter negative influence of any possible political barriers to our business activities. Also, we founded representative field office in Moscow to introduce our production and our company to the Russian market in the most favourable light possible. All in all, we can only overcome political barriers by improving the quality of our production and making sure that relations with our existing and possible customer are strong, resilient and mutually beneficial to withstand any pressures coming from political environment.

**11. Were your actions successful? If not, why? What could be done to be more effective in overcoming those barriers?**

Our actions are of limited success as one company hardly can achieve it. Our actions are successful in terms of our company continuing to operate in Russian market and doing so successfully in spite of political barriers. In order to best overcome these barriers joint actions of all the Lithuanian companies operating in Russia is necessary which is lacking at the moment. As a group such companies could attempt to influence Russian political structures to create more favourable political environment to pursue business for Lithuanian companies. Additionally, as a group Lithuanian companies could organize events in Russia's manufacturing and industrial regions to promote the cause of Lithuanian enterprises. In a nutshell, Lithuanian companies could be more cooperative in pursuing their goals as far as internationalization in Russia is concerned. One more thing to add is that as a group Lithuanian companies could address Lithuanian government to lobby on their behalf in order to receive support. Lithuanian government could be more proactive in this regard. To put it bluntly, a lot could be done to help Lithuanian companies doing business in Russia, but that would require not doing a lot as well. Most of all, Lithuanian government should not hinder or put additional obstacles in our way.



## **Appendix 2. Interview with the company number 2.**

### **1. Briefly describe your company. What do you produce? How long have you been working in this field? What is the history of your company? What is the number of people working in your company?**

Our company was founded 30 years ago. We produce sauces, ketchup and mayonnaise. We have 150 employees working in our company. Our company was established after Lithuania regained its independence by using knowledge and technical expertise that was gathered in the factory which worked in a similar field of food production during the Soviet times. We expanded and improved production by adapting it to the free market standards to better serve our customers. Nowadays we produce over 35 tons of mayonnaise and 10 tons of tomato sauce daily that we export to the number of countries including Russia.

### **2. What conditions exist in the home market? How did it influence decision to expand? Why Russian market was chosen for expansion?**

We are successful in our home market and maintain a significant share of it. I prefer not to give any specific number, but we remain one of the leaders of food sauces production and sales in Lithuania. Additionally, we started exporting to Russian market 15 years ago and been quite successful at it as well. We did make a choice to start exporting to the Russian market simply to expand our area of operations and gain more opportunities internationally. Before expanding we considered our options carefully and this direction, namely Russian direction was chosen due to several reasons. Firstly, Russia was chosen because of the close proximity geographically which makes trading and delivering our products simpler. We did not want to expand far away which would stretch logistics. It is fair to say that we were looking for a similar market culturally and in terms of customers tastes to what we have in Lithuania. We needed a market with customers that might enjoy our sauces which are suited to Lithuanian customer base as changing our products was out of the question. That would have required a lot of technical changes in our production process. Basically, we were looking for a market just like the one here in our home country just bigger. Russia is a huge market for our products, so we carried out research of how our products be appreciated by customers there, results were positive, so choice was made to move forward with this idea. We expanded to other markets as well such as Poland, Latvia, Estonia and so on, however Russian market remains critically important for us due to its significant size.

### **3. Goals of expansion to the Russian market. What opportunities are there in this area for the company?**

We have been in the Russian market for 15 years now. Goals are probably similar to any other company, nothing extraordinary here. We would like to expand our production and sales to increase revenue. That and provide Russian market with great mayonnaise and ketchup. As I told already, there are possibilities for us to achieve success in this market simply because of its sheer size and numbers of potential customers. Moreover, local competitors usually don't have knowledge and know how in the area of food production as we invest heavily in research and development of new quality products. Moreover, since Lithuania is part of European Union we have better access to technology and innovations available in western European countries that allow us to improve our products. Our competitors in Russian market don't have this advantage or they have more trouble implementing it. Moreover, Russian food companies are slow to acquire new habits and changes in their operations, they prefer to stay on the path they're currently on. I'm not sure why that is, it could be influenced by cultural reasons or just how Russian companies operate which is in my experience

very hierarchical and static with little personal initiative to try new ideas. In our company we encourage new ideas even if they are unusual. Which puts at the advantage I suppose. So all in all our main opportunity in this market is to take those advantages we have due to our position and employ them in order to achieve best results possible.

#### **4. What threats did the company expected to face before pursuing internationalisation?**

Well, we were afraid of possible sanctions and ban of our activity in Russia due to complicated political circumstances. Naturally, political environment of Russia was a very real and relevant concern we had. There were worries that it will be difficult for us to export our products to Russia and we will experience some sort of political pressure from state institutions such as government intervention, protectionism and obstacles to trade. Moreover, we did not have any experience operating in the Russian market and so we were worried of any corruption, administrative red tape and other bureaucratic hurdles that might come our way. One more concern we had was a possible political unrest and general instability in Russia as well as economic failures and legislation unfavourable to foreign companies in general to protect Russian food industry.

#### **5. What was the entry choice to the Russian market? Why was this option chosen?**

At first, we simply exported our brand products to Russia. However later on a decision was made to open a factory in partnership with another company in Russia and create brands specifically targeted to Russian market. This decision was made because market research demonstrated that customers in Russia would be more likely to buy brands that sounded and looked like part of their cultural heritage. So, we simply did that and adjusted our products to the Russian market. However, we do export some of our original Lithuanian products to Russia as there are consumers in that market who buy them. I would also state that a lot depends on finding partners who could deliver products to the major Russian supermarkets as it is really difficult to reach them without some sort of personal or business connections.

#### **6. Was there any assistance to internationalization from the institutions of the Lithuanian.**

Not really, we do not receive any such assistance.

#### **7. What political barriers to internationalization did company experienced?**

In our day-to-day operations in Russia we have to deal with bureaucracy a lot since we have our own factory in there. High levels of corruption is important barrier to our activities since officials are sometimes reluctant to provide permits and necessary paperwork. There have been cases where public officials hinted that things could go more smoothly if we were to invest more and spend some additional money. We did not experience that in other countries we do business in. Also, attitudes to our company depend a lot on how political relations are between Russia and Lithuania. For example, there we had a case when potential partners refused to do business with us because they feared complicated relations between two countries might undermine this potential partnership. I also believe that we Russian government sometimes enacts unfair requirements due to political reasons. For example, requirements for our products are very high and we are tested and checked more than our competitors. Russian agencies responsible for quality and standards of food somehow are very picky and investigative when it comes to our productions. They are sometimes very pedantic about the details, standards and regulations. Of course, it could be said that it's their job to be thorough and check food products very carefully, however sometimes it looks like they're trying to find wrongdoing and problems. Also big issue for us is currency and low value of rouble which means when we export our goods price is higher for the Russian customer which makes it harder for us to sell our sauces.

## **8. How did they obstruct your internationalization efforts?**

Well, they make it harder for us to work and do business obviously. We have to take into account the fact we might be checked and people checking our goods produced will be looking for a problem to get a bribe or damage our reputation. Basically, we have to consider a lot of possible problems and general uncertainty which means we have to be constantly on alert. It drains our resources and means we have to spend more time, energy and resources dealing with problems that we would not have to deal with in Lithuania for example.

## **9. How Russian political environment influence your business activity within that country?**

It was just something we had to adapt to in order to be effective. Russia has a completely different mindset and cultural values in comparison to western European countries and therefore we have to be adaptive and flexible. Russian political environment is a complicated one and it's not similar to the one we have in Lithuania. For instance, in Russia laws concerning environmental pollution are different to the ones we have in Lithuania. In Russia, environmental laws are more relaxed compared to the ones we have in Lithuania and therefore it is easier to manage business activities. On the other hand, tax policy, meaning tax rates and incentives, are prone to a lot of subjective changes that are not logical or explained by Russian authorities. For example, our company in Russia had to pay additional tax when local governmental authorities decided that to enact laws that required food producers to pay additional tax due to their goods supposedly not being up to the standards of healthy nutrition and diet. So, all in all, Russian political environment mainly influences our business by being unpredictable and being hard to adapt to. Moreover, Russian government determines monetary and fiscal actions that impacts the way we have to do business. Currency fluctuations is another big thing we have to deal with since it affects our company a lot when we have to trade our products from Euro currency to Russian roubles. Russian governmental policy sometimes directly leads to rouble losing its value. Also, political stability has a huge contributing influence on our company. For example, we are in constant danger of political unrest and instability. So far it has not affected our business as there was no case of such occurrences, however we are concerned that it might happen and disturb our activities.

## **10. What actions did you take to overcome barriers to internationalization stemming from Russian political environment?**

Well, there is little that could be done from our side. The only thing that could be possible to do and that we are doing right now is to make sure our products are in demand by maintaining quality. I don't believe one single company can be very successful in overcoming political barriers to internationalization on its own. Best we can do is to adapt and make sure we learn how to operate and be successful in an environment we have in Russia. In my opinion that is the only thing we can do to be successful and achieve our results. There is no magical solution here to make all problems disappear. If there were such a solution we would gladly implement it.

## **11. Were your actions successful? If not, why? What could be done to be more effective in overcoming those barriers?**

We did not take any specific actions since there is not much that we can do other than making sure we deliver best product possible. On the other hand, political forces might assist the internationalisation of firms, such as, removing international trade barricades and embargoes, or by setting up free economic zones where the firms can produce and trade under favourable conditions. However, these decisions are out of our reach. We only have one single factory in Russia and do not have capabilities to affect change on this level. Maybe cooperation with other Lithuanian firms

pursuing business in Russia might be useful here, but I doubt even that could create more favourable conditions. Political environment is like the weather, you cannot change it, best you can do is adapt to it by getting an umbrella.

### **Appendix 3. Interview with the company number 3.**

#### **1. Briefly describe your company. What do you produce? How long have you been working in this field? What is the history of your company? What is the number of people working in your company?**

Our company manufactures building and home heating materials. Number of people we currently employ is 50. We have been working in this field since 1996 and have been exporting in Russia for about 15 years now. Before Lithuania regained independence I was a leading engineer in a Soviet factory that produced similar equipment. After free market reforms were introduced I decided to make my skills and knowledge useful and start my own business in this field.

#### **2. What conditions exist in the home market? How did it influence decision to expand? Why Russian market was chosen for expansion?**

Our sales in Lithuania makes up for about two thirds of all revenues. At present our production has reached the level where Lithuanian market is simply not enough for us to fully cover our scope of productions. As a result, we had no choice but to expand outside Lithuania. We export our materials to Latvia and Estonia. However, these markets are even smaller than the one we have in Lithuania. We have considered expansion to western European countries and we do export some of our products there. Unfortunately, barriers to entry to the markets of western European countries are high and competition there is tough. Most building material markets in, let's say, Germany or France are already saturated and there are local enterprises that have been working in this field for decades if not literally centuries now. It would be very complicated for a company like us that is based in Eastern Europe to enter, for example, market of Germany, especially when there have been companies already well established there. It is easier to make connections with local suppliers and distributors in Russia rather than the ones in France or Germany. It is my opinion, that worldview and mentality of Russian business people are closer to us than that of western European entrepreneurs. Moreover, Russia has been expanding and having lot of infrastructure projects in the far east to get better access to resources found in Siberia. Therefore, there is great need for building materials in Russia and we can offer competitive prices in comparison to our competitors from western Europe. So, we opted for Russian market as a target for expansion due to its size, lower barriers of entry, cultural legacy, bigger profit margins compared to those we would have gotten in other markets and similarity to the market of Lithuania.

#### **3. Goals of expansion to the Russian market. What opportunities are there in this area for the company?**

Main goal is to find a market to sell our production. What we need most of all is to make sure we have a reliable market where we can export our products. With things as they are, without big market like the one we have in Russia, there is simply no way for us to successfully sell everything we produce. So, I suppose main goal is to do everything in our power that we do not lose Russian market and hopefully, manage to hold our positions there. We do not plan to try to expand our exports to Russia since we do not think this market is safe enough for us to invest in it too much of our time or money.

#### **4. What threats did the company expected to face before pursuing internationalisation?**

We expected several threats to our company we might face in Russia. First, we were anxious about possible political instability and ramification that could have to our operations there, meaning supply chain, delivery, reliably payment for our products and so on. Also, we were worried about currency

exchange rates experiencing a lot of often and sudden changes, which could make trading across currencies difficult and troublesome. Another concern was a possibility that our production will be penalised for political reasons and that we would be exposed to sanctions that would treat us unfairly and seek to prevent us from exporting our goods to Russia. One more thing we were concerned about was the fact that Russian laws are difficult to follow because you can get lost easily in the bureaucratic jungle.

#### **5. What was the entry choice to the Russian market? Why was this option chosen?**

Main idea behind our entry was using relations with our partners in Russia to establish ways of how to bring our materials to the local customers. So rather than trying to provide a license to Russian companies to produce our goods, we chose to sell our products to distributors in that market, who sell products to the end buyer. Luckily for us, we have a trusting and personal relationship with several key distributors that assisted in our entrance to the Russian market. That allowed us to avoid having to invest the resources in developing manufacturing or storing facilities. Yet, we still cover transportation costs and face restrictive tariffs when moving our goods across Russian border. Basically, we have chosen the option that was most resilient to possible problems arising from environment we will be operating in. It can be said we were anticipating possible negative consequences that could arise from political environment in Russia or relations between Lithuania and Russia.

#### **6. Was there any assistance to internationalization from the institutions of the Lithuanian state?**

There was no assistance of Lithuanian state agencies in any way, shape or form. Moreover, Russia is not listed by Lithuanian government as a country with which trading and economic activity should be encouraged. Russia has closed its chamber of commerce in Lithuania last autumn and our state representation as far as commerce is concerned is limited to none in Moscow. Therefore, we are on our own when it comes to our business in Russia.

#### **7. What political barriers to internationalization did company experienced?**

Main barrier is sanctions imposed by Russia on our production. There have been several cases where Lithuanian companies, including our own, was banned from exporting to Russia supposedly due to reasons of quality assurance. It just so happened, that these concerns coincided with political tensions between Russia and Lithuania. Back in 2014 our production was banned completely from being exported to the Russian market. Official explanation was that there have been safety concerns and that our production does not fit requirements set by Russia to ensure quality. Of course, we knew that and made sure our materials are made in accordance with Russia regulations, however that was to no avail. Lithuanian companies were prevented from selling their goods in Russian market. That was very damaging to our operations there. I prefer not to cite numbers, but our exports to Russia were reduced by significantly and we experienced a kind of crisis. Regardless of what authorities in Russia say about safety concerns, we all know that the main reason for sanctions was to punish Lithuania and put economic pressure on it. We have always known that Russia is a complicated market and there are risks involved however we have chosen it for the reasons I already mentioned.

#### **8. How did they obstruct your internationalization efforts?**

Well, our products have been banned from Russia for a certain amount of time so I would say that was a huge obstruction. To put it bluntly, we have experienced financial loss because of these political barriers as you call it. We were also forced to rearrange our export directions and look for alternatives to Russian market, so I would say our efforts were hindered in a major way. In a few months, after tensions cooled down a bit and we managed to prove our production rises to the standard set by Russia

we were able to resume our exports to that country. We had to spend a lot of time and energy communicating with Russian governmental agencies and to solve this issue. Eventually what it came down to was, our customers lobbying on our behalf and supporting us in order to resume our partnership.

**9. How Russian political environment influence your business activity within that country?**

I would say that influence is negative judging on events of the past views years and the fact we have been forced out of this market for a considerable period of time. Political environment of Russia is not very stable as far as our business goes. We are being under constant threat and surveillance. If anything goes wrong, we are being used as a punching bag. Whenever there are tensions regarding matters of relations between Russia and Lithuania, we are the ones feeling the heat so to speak. And naturally, this creates less favourable political environment for us to operate in. So, our business is influence by Russian political environment by permanent conditions of doubt, instability, possible change, risk and fear of unjust sanctions against us. Good metaphor for Russian political environment and doing business in it could be gambling because it is a bit like gambling. You could win big, or you could lose big, and it depends a lot on chance, luck and other factors beyond your control.

**10. What actions did you take to overcome barriers to internationalization stemming from Russian political environment?**

Well, there is little we can do when it comes to overcoming those barriers since decision to enact or not to enact them is beyond our control. Perhaps the only way for our company to deal with the problem we have is to find way to adapt to changing circumstances. We have tried to replace Russian market with alternatives such as other countries with similar markets to the one we have in Russia, however it is difficult to do so because there are no similar markets to the one we have in Russia. Moreover, due to the nature of our production, finding other markets are complicated. Still, we did manage to reorient our exports to other countries, mostly in Eastern European region,

**11. Were your actions successful? If not, why? What could be done to be more effective in overcoming those barriers?**

The best possible solution would be to somehow make politics not influence international business. However, that is just wishful thinking, it will never happen in reality. Therefore, we are left with no other choice but to adapt and make best of the situation we are in. We have to analyse Russian laws to make sure our operations there are in accordance with their regulations and there is no possibility left for Russian authorities to use this against us. However, as I already mentioned before, it is difficult to achieve and if there is a desire to find something against us in the tax code, very little can be done by us to prevent that. As far as what could be done beyond our control, for one, export tariffs could be reduced to make our production more competitive in Russia, but that would require action on the level on international politics which beyond our capabilities to influence. I guess we just have to face the fact that on our own there is very little that we can do and as a result we must adapt or perish. I guess one thing that could be done by Lithuanian government is some sort of insurance where state authorities could provide insurance business companies that do activities in potentially dangerous markets.

## **Appendix 4. Interview with the expert number 1**

### **1. How important is Russian market to Lithuanian manufacturing companies that do business internationally?**

Russian market remains one of the most important direction for Lithuanian companies as far as foreign markets go. Nevertheless, data from the last 5 years showed that amount of Lithuanian manufactured goods that have been exported to Russia has been declining steadily. Russia is no longer a priority for Lithuanian companies exporting abroad. However, Russia remains for the time being an important market for re-export from Lithuania which means that a lot of products are imported to Lithuania from western Europe and then sent to Russia as a final destination. Nonetheless, as political and economic relations between European Union and Russia are getting more heated, it is entirely possible that Russia will refocus its attention and transit routes to China and Southeast Asian states, reducing the necessity to trade with European countries. Another important aspect to take into account is an embargo Russia enacted to certain meat and dairy products that applies to Lithuanian companies as a response to sanctions related to 2014 events in Ukraine. That is a relevant factor when evaluating importance of Russian market to Lithuanian companies. Additionally, it must be mentioned that a lot of Lithuanian companies have their subsidiary firms in the Russian market as that way it is easier to pursue internationalization, especially in the service sector and manufacturing products for Russian customers.

### **2. What are the reasons that motivate Lithuanian companies pursue internationalization in the Russian market?**

It is widely believed by a portion of Lithuanian business community that Russian market offers better opportunity to make most profit in a fastest way. Additionally, Russia has a population of 142 million people which means it's a huge market. However, not all regions of Russia have the same purchasing power, therefore most Lithuanian goods exported to Russia end up being sold in Moscow, Saint Petersburg and Kaliningrad regions. Some Lithuanian companies choose Russian market due to preexisting business or personal relationships that sometimes go as far back as 30 or more years.

### **3. Are Lithuanian companies competitive in the Russian market? What factors determine that?**

It is my belief that Lithuanian companies pursuing internationalization in the Russian market are mostly competitive in comparison with local Russian firms. There are several factors that determine this. First, Lithuanian companies can offer products and services that are of better quality than those offered by competition. Secondly, costs of transportation is relatively low as long as manufactured goods don't have to be delivered to far away regions of Russia and their destination remains nearby regions of Moscow, Saint Petersburg and Kaliningrad. Finally, Lithuanian companies that have been in Russian market for a considerable period of time have gathered a lot of experience and knowledge regarding environment that have to operate in which helps them to be successful in this market. One thing that needs to be mentioned as a factor which undermines internationalization of Lithuanian companies in the Russian market is devaluation of Russian rouble that increases costs of Lithuanian products in the Russian market. Coupled with the fact that most people in Russia can't afford to pay extra to cover additional costs that stem from weaker rouble, this substantially impacts competitiveness of Lithuanian companies in the Russian market.

### **4. How would you describe Russian business environment. How is it influenced by Russian political environment?**



Russian companies complain a lot that there are too many institutions in Russia that regulate and limit entrepreneurs to carry out commercial projects and ideas. Furthermore, it is asserted by local Russian firms that Russian government does not support and create favourable conditions for business to prosper because it does not understand or care about what companies need. This was particularly evident in the year 2020 when Russia authorities made a decision to start quarantine. This decision led to 20 % of all Russian companies facing bankruptcy. Second quarantine in the autumn of 2020 was not declared since Russian government was worried about its possible ramifications to economy and businesses. Additionally, Russian companies put pressure on the government demanding preferential treatment and advantages in comparison to foreign competitors. Sometimes this political pressure pays off and Russian government seeks to empower local Russian companies by making legislative changes or creating favourable economic environment that would assist Russian firms and undermine foreign ones. Basically, Russian political environment and Russian economic environment are two sides of the same coin, both influencing and affecting each other.

##### **5. What political barriers to internationalization exist in Russia? How does Russian political environment influence these barriers?**

Well, as have been mentioned previously, there political barriers are closely related to economic barriers. For example, Foreign companies, including Lithuanian ones, have less advantageous opportunities to participate in public biddings for various governmental projects and offers. Additionally, Lithuanian companies do not have the same access to political infrastructure as Russian companies. Meaning, they do not enjoy fruitful and beneficial relationships with Russian political figures, political parties or governmental institutions. This creates political climate that is difficult for Lithuanian companies pursuing internationalization in the Russian market. Therefore, government intervention, protectionism, barriers to trade and investment are all important factors that shapes Russian political environment. Another political barrier that is noteworthy is a lack of legal safeguards for intellectual property rights in Russia. As a result, foreign companies present in Russia face risk of their ideas and innovations being stolen or copied by Russian competitors with limited methods of how to defend against it being provided by the Russian government. It needs to be admitted, however, that most of the political barriers present in Russia, affects all foreign companies and not just Lithuanian ones. Lithuanian companies pursuing internationalization in Russia are not being singled out by the Russian government for the purpose of creating political barriers exclusively for them. More often, than not, political barriers arise from Russian political environment and are not created with a specific goal or purpose. Lastly, I just like to mention that final barrier for foreign companies in Russia is a threat of governmental instability. Several reputable institutions measuring political stability of countries a

## **Appendix 5. Interview with the expert number 2**

### **1. How important is Russian market to Lithuanian manufacturing companies that do business internationally?**

Well, it depends on what does a company produces and what are its plans in the Russian market. Importance of Russian market for Lithuanian companies has diminished considerably. Less and less companies consider Russian market important. We are getting to a point where Russian market will be obsolete as an export destination for Lithuanian companies. Reasons for that are various. Mainly, working in the Russian market became too risky due to economic sanctions, Russian political environment and so on. On the other hand, Russia remains relevant for Lithuanian companies as a source of raw materials import since it can offer a lot of resources that are up to the quality requirements and is logistically close. It needs to be mentioned, that most Lithuanian companies are not dependant on Russian raw materials. They choose Russia as an importer of needed resources because it can offer more advantageous conditions in comparison to alternatives from other countries. Russia remains important market for Lithuanian companies offering various services, especially for logistics companies that transport goods. These companies serve a role as an intermediary between European Union and Russia when it comes to transporting manufactured products, however logistical companies and their operations in the Russian market is a different case than manufacturing companies.

### **2. What are the reasons that motivate Lithuanian companies pursue internationalization in the Russian market?**

Russian market has several advantages. First, it is a huge market that offers a lot of potential customers. Secondly, for a lot of Lithuanian companies it is easier to enter Russian market in comparison to markets of other countries since many Lithuanian businessmen are familiar with Russian language, customs, mindset of local entrepreneurs and so on. For those reasons costs of entering the Russian market for Lithuanian manufacturing companies are lower and it is possible to acquire bigger market share at a faster rate. Moreover, in some Russian regions offer less competition for Lithuanian products, especially if they are of higher quality than products provided by Russian firms.

### **3. Are Lithuanian companies competitive in the Russian market? What factors determine that?**

I suppose it depends a lot of a specific company pursuing internationalization in the Russian market and can only be judged on a case-by-case basis. Some Lithuanian companies are competitive in the Russian market others are not. Generally, Lithuanian companies are getting less and less competitive because their products become more expensive and less accessible to Russian customers. On the other hand, certain products manufactured by Lithuanian companies and marketed for specific segments of Russian customers can be very competitive and successful.

### **4. How would you describe Russian business environment. How is it influenced by Russian political environment?**

Russia has a market economy, therefore in many ways Russian business environment is similar to business environment of other countries in the region and the world. Protectionism is applied in the Russian market, nevertheless it has little impact for direct sales and internationalization activities of foreign companies operating in the Russian market. That happens, because most Russian protectionist policies have a political goal rather than defending Russian national companies from foreign competition. There is no political institution in Russia that would make sure sanctions and other

protectionist policies enacted by the Russian government are fully effective and cannot be avoided. The main political barrier to internationalization in Russia is a fact that it is very difficult for Lithuanian manufacturing companies to do business in Russia without having reliable and supportive local business partners. All Russian political and judiciary institutions defend the interests of Russian citizens first and foremost, leaving the interest of foreign investors as a secondary concern. As a result, it's hard and complicated for Lithuanian manufacturing companies to pursue internationalization in the Russian market. If there is a disagreement with competitors or partners, Russian state institutions almost always support them and not Lithuanian companies. Additionally, many provincial administrative institutions in Russia, especially in regions far away from major cities, are subservient to local businesses. Consequently, companies pursuing internationalization in Russia without any assistance or guidance from local partners face considerable political barriers. Competing firms might hinder business operations by claiming that regulations are not being observed and local political institutions are more than ready and willing to follow up by carrying out inspections and putting Lithuanian manufacturing companies out of business for unjust reasons.

**5. What political barriers to internationalization exist in Russia? How does the Russian political environment influence these barriers?**

The major political barrier to internationalization in the Russian market is constant doubt of an unexpected political threat arising any moment and not knowing if the money invested will be lost without an opportunity to turn them into profit. Therefore, it is dangerous to seek internationalization in Russia as it can be destroyed by an unstable and hostile political environment. As a result, many Lithuanian companies choose to pursue internationalization in more politically safe, secure and stable countries as an alternative to entering the Russian market. Nevertheless, Russian markets present an opportunity to make more money and achieve profit easier and faster, so many companies opt for it. That is particularly true for service and logistical companies. Additionally, many companies pursue successful internationalization in Russia by having reliable and trustworthy partners which mitigate risk stemming from political barriers.

**6. What possible solutions could be taken for companies to overcome political barriers to internationalization in the Russian market?**

The best option for companies that have trouble overcoming political barriers to internationalization in Russia is to simply find alternative markets and abandon the Russian market entirely.