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Doing Business in Ukraine - Experiences of two Finnish Companies

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1 Ukraine from a Finnish perspective

1.1 Ukraine as a business opportunity

Ukrainian market offers many possibilities attracting foreign companies to the country. The size of the country with around 50 million inhabitants offers a large potential market. The market is also not as saturated as in many Western European countries and margins are therefore higher in many sectors. Some sectors are quite new in the country, such as modern logistics, and therefore offer new opportunities. The retail sector is also not as developed as in Western Europe or even some other parts of Eastern Europe. The sector has, however, been growing quite rapidly during this decade and was ranked on third position among the most interesting locations for enlargement of retail trade after India and Russia (A.T. Kearney, 2005).

The level of direct investments to Ukraine has remained quite low partly due to problems in legislation. The FDI stock in Ukraine reached $ 16 billion in the beginning of this year and most of the FDI has been invested in the metallurgical sector, trading and food industry (see for example Uiboupin, 2006).

Finnish investments in Ukraine have also so far been quite modest. According to the State Statistics Committee of Ukraine (2006) the volume of Finnish FDI reached $ 9, 2 million in the beginning of 2006 growing by 1,5 million from previous year. Finnish exports to Ukraine grew by 21% in 2005 and amounted to € 311 million. The majority of Finnish exports to Ukraine consist of machinery, equipment and transportation devices. The largest group of products exported from Finland to Ukraine last year was telecommunication products and the exports of these products grew by 80% from previous year. Imports from Ukraine to Finland are quite modest and consist of manufactured ready made goods as well as fuels. In 2005 the imports from Ukraine grew by 9% and amounted to € 35 million (National Board of Customs Finland, 2006.) According to Finpro Ukraine there are currently around 50 Finnish companies operating in the Ukrainian market either by local subsidiaries or representative offices (Oliinyk, 2006).

As for Finnish companies, the comparative advantage in the Ukrainian market could be achieved in sectors requiring technology intensive knowledge such as telecommunications in which the Finnish companies have strong know-how. The growing consumer sector in general offers possibilities for Finnish products from different sectors. These sectors have already to some extent been exploited by Finnish companies (Oliinyk, 2006). The market is, however, growing quite fast in most sectors and it is possible to gain a foothold and develop a successful business in most sectors.

On the other hand, there are also challenges related to business in Ukraine . Differences in business cultures might cause some problems for the Finnish companies operating in Ukraine. Local mentality towards doing business differs from Finland and for example tax evasion is not very uncommon among the local companies.

> *It can often be difficult for Westerners to understand that a Ukrainian company might be a reliable partner and never let down its partners but it might also be engaged in heavy tax evasion activities. This is a contradiction which it might be difficult to understand.*
> (Oliinyk, 2006)

Infrastructure in Ukraine is not well developed in many areas and for example logistic services are not always available. Also poor legislation can create problems for the activities. (Oliinyk, 2006.) One of the most critical problems in Ukraine is high corruption rate and the country was ranked 122nd among 146 countries in 2004 in the corruption index of Transparency International (Transparency International 2004). Outdated legislation, bureaucracy and poor corporate governance also create problems for foreign companies (EBRD, 2006).

1.2 Purpose of the study and sources of empirical data

This study investigates the experiences and motives related to local presence of two Finnish companies which have local operations in Ukraine. The study aims at gaining information about operating in Ukraine as a foreign company and describing the business environment from a foreign company point of view. The results of the study provide Finnish companies information about Ukraine as an investment target and business location and give an insight into factors which have been important in the establishment of the case company operations in the country.

The first company under investigation in this study is Ruukki Construction and the material from this company has been collected from company website and by interviewing Ari Vouti, the vice president and the leader of the Eastern Europe unit of Ruukki Construction. Eastern Europe unit of the company includes for example the activities Ukraine and Russia. Vouti has several years of experience in the company as he started as the leader of the residential unit a several of years ago and moved to the current position as the structure of the company was changed.

The second case company is Nokia Customer and Market operations, which has a representative office in Ukraine. The material has also been collected from company website and interviews with Mika Toivonen, manager responsible for the sales in CIS countries including Ukraine. He has been working with the region already for ten years and started as a Nokia salesman involved in sales to CIS countries before there were any operations in the countries. It can therefore be said that Toivonen has a long experience in the company and in the CIS region.

One phone interview was also conducted with a market analyst in Finpro in Ukraine helping Finnish companies entering and operating in Ukraine. The purpose of this interview was to gain general background knowledge of the Finnish activities in the country and the local business climate and it effect for foreign companies.

The following sections provide a short description of the construction material and mobile phone sectors in Ukraine giving an overview of the operational contexts of the companies. After this the companies are introduced and their activities in Ukraine are described. The latter chapters will give an insight into the experiences of the companies in Ukraine and the motives related to the activities in the country.

1.3 Construction material sector in Ukraine

Construction is growing in Ukraine and for example the investments in fixed capital within the construction sector in the country grew by over 40 % in the first quarter of

2006 (State Statistics Committee of Ukraine, 2006). According to Engineering News Record (2006) in 2004 out of world's 400 top contractors four operated in Ukraine, namely Bechtel, CH2M Hill Cos. Ltd, Perini Corp and Washington Group International Inc. Foreign investment inflows have remained moderate, and accounted for $ 26 million and $ 48 million in Ukraine in 2003 and 2004, respectively (UNCTAD 2005). Growing construction activities result in increasing demand for construction materials. Construction materials constitute a close to $ 3 billion market, and the sector is growing rapidly (Ukraine Trade Invest, 2006). There are already several companies with foreign investment in the market, and these companies generate a substantial amount of sector revenues.

Ukraine's economic development and its current negotiations with World Trade Organisation (WTO) make it an interesting target country for international construction companies. Domestic sales account for majority of the sector revenues and are growing at a rate of 20 to 40% per year, depending on market segment. Natural resources available provide the sector with a major competitive advantage. Relatively low cost of skilled labour force and low electricity costs are also important competitive advantages. These advantages give brown field investors solid opportunities to generate high ROI. The existence of strong sector leaders presents good prospects to strategic partnership investors as well. (Ukraine Trade Invest, 2006.)

Ukraine has a well-developed construction materials industry. In the past few years, annual incremental growth of construction materials output has been 10-12%.Production is done across the country at enterprises representing many industry sectors. There are more than 32 thousand plants, firms, and organisations manufacturing construction materials employing more than 1 million workers. Construction materials industry is mainly concentrated near sources of raw materials in the eastern parts of the country and regions with high construction activity rates such as the capital region. (Ukraine Trade Invest, 2006.)

Most of the local roofing and insulating materials are inferior to imported ones in appearance and durability. This lag is mainly due to an insufficient level of production technology, wear of equipment and the need for designing and implementing investment and innovative projects. Some regions still have a shortage of many construction materials. The sector of building materials and the construction industry in Ukraine have include problems, which should be developed in order to be able to increase the profitability of the sectors. One of the challenges is changing the structure of construction materials production to meet the needs of modern construction and introduce new kinds of architectural and building systems and construction types and technology. Creating a regional network of wholesale and retail organisations is also needed. (Ukraine Trade Invest, 2006.)

A few years ago, high-end roofing materials became available in the country and since then, mass demand for these formerly elite materials has exploded. For many decades, in the cities of Ukraine and Russia, the majority of roofs of country houses were covered with asbestos cement sheeting and galvanization. Since the new products have entered the markets, new roofing trends are constantly introduced. Metal tile for example is a rather young roofing material. Last year the Ukrainian market of metal tiling was about six million square meters. There are eleven manufacturers in Ukraine and the major companies are based in Kiev Dnipropetrovsk and the five largest companies account for 85-90% of the market. Since 2004, sales of metal tile and shaped boarding have increased in Ukraine by 15-20%. This surge is mostly the result of increased building activity through out the country, increased purchasing power in the general population which is interested in private housing construction, and high consumer confidence in Ukrainian manufacturers of metal tile. (Ukraine Trade Invest, 2006.)

Since last year, also the price of metal tiling has risen up to 20% and continued growth in Ukrainian demand is expected. Ukraine's industrial construction is even more interested in the use of metal tiling than the private consumers. The market for metal tiling is likely to develop rather dynamically primarily because it is connected to development of private construction in Ukraine. Under conditions of sufficient investment, the trend will go from large cities to the remote areas where there is the possibility of sizeable market potential. (Ukraine Trade Invest, 2006)

1.4 Mobile phone sector in Ukraine

Telecommunications market has been the fastest growing sector in the Ukrainian economy during the past few years. The amount of new subscriber connections has doubled several years in a row. In 2005 subscriber base grew from 13,8 to 30,4 million customers and the growth has been predicted to continue. The penetration of subscriptions was 64,7% by the end of 2005 and in Kiev region the penetration is already over 100%. Customers in the Kiev region spend 2,4 times more on mobile phone services than Ukrainians in average. (Finpro, 2006.)

Table 1 Ukrainian cellular phone market by the end of 2005

	Ukraine	**Kiev region**
Subscribers	30,4 million	5,2 million
Penetration	64,7%	118%
Net Additions	16,6 million	2,5 million
Subscriber Base Growth compared with previous year	118%	108%

Sources: Finpro, 2006; IKS Consulting, 2006

In the first two months of 2006 the number of cellular subscribers increased 1.7% to 31.91 million. The penetration level reached 67.9% against 66.8% in the previous month. IKS-Consulting estimates that about 18% of Ukrainians will become first time cellular subscribers in the year 2006. (IKS-Consulting, 2006.)

Until 2005 UMC was the market leader in the Ukrainian operator market. During 2005 the company, however lost the position to Kyivstar which increased its market share to over 40% by means of aggressive marketing. Also Astelit entered the market aggressively in the beginning of 2005 and gained over 2,5 million customers during 2005. (Finpro, 2006.) The following table shows the situation in the development during 2005.

Table 2 5 largest operators in 2005

Operators Rating: Top-5 by Subscriber Base 2005

Operator	**Subscribers in Ukraine by the end of 2005**	**Share in Net Additions % 2005**	**Subscriber base growth in 2005**
Kyivstar	13 924 943	46,6	123
UMC	13 327 267	36,2	82
Astelit	2 620 000	15,9	-
WellCOM	256 849	1,2	270
DCC	70 000	-0,1	-18
Others	170 000	0,3	33

Source: IKS-Consulting, 2006; Finpro, 2006

By February 2006 UMC had reduced its lag from Kyivstar by 13 thousand subscribers, having generated the largest portion of net additions 38%. However, the fastest subscriber base growth was demonstrated by the third largest operator, Astelit. In the beginning of 2006 the Charkiv CDMA-operator Velton Telecom also entered the most important Ukrainian cellular operators by increasing its subscriber base to 65 000. (IKS-Consulting, 2006.)

The rapid development of the telecommunications sector and the fast growth of new subscriptions has been predicted to continue also in the near future offering companies large potential. After a couple of years, after the penetration level reaches 100%, the replacement market of mobile phones will increase leading to a new market situation closer to the Western European markets.

2 Finnish companies in focus

2.1 Ruukki Construction[2]

Ruukki Construction is a part of Finnish Rautaruukki Group. The legal name of the company is still traditional Rautaruukki and the name Ruukki is used in the marketing activities of the company. The company is divided into three different business areas. The most traditional, or at least usually the one associated with Rautaruukki is metal business, which still is the largest business. Rautaruukki also has two business or customer divisions: Ruukki engineering and Ruukki construction which is the in the focus of this study.

Table 3 Ruukki group structure and size of the divisions

Divisions of Rautaruukki	Net sales, M€		Operating profit, M€	
	2005	**2004**	**2005**	**2004**
Ruukki Construction supplies metal-based solutions for building construction, especially for the retail, industrial and logistics construction, as well as for infrastructure construction.	550	377	86	57
Ruukki Engineering supplies metal-based solutions for lifting, handling and transportation equipment industry as well as for paper and wood processing, marine and off-shore industries.	476	329	96	53
Ruukki Metals supplies a wide selection of steel, stainless steel and aluminium as standard and special products, parts and components.	2625	2850	486	425
Total	3651	3556	668	535

Source: www.ruukki.com

Ruukki Corporation has a turnover of approximately 3,7 billion and the company employs 12 000 people. They have production in Finland, Sweden, Norway, the Baltic States, Russia, Ukraine, Poland, Czech Republic, Slovakia and Hungary and sales in a couple of more countries.

[2] The data for this section is based on two interviews with the vice president and the director of the Eastern Europe unit of Ruukki Construction, Ari Vouti, as well as Ruukki Corporation website and official documents.

Ruukki group has a strict geographical focus covering Scandinavia, Central Eastern Europe stretching from Poland to Romania and Eastern Europe; including Ukraine and Russia. In Western Europe the company concentrates on certain key customers. Ruukki Construction is even more focused on the Central Eastern Europe than the whole Ruukki group. Eastern Europe is important since it generates growth for the company and Scandinavia is the basic area with established business. Ruukki Construction is further divided into three different geographical units. Eastern Europe includes Ukraine, Russia and Kazakhstan. Ukraine is one of the focus areas of the company and therefore they also have production in the country.

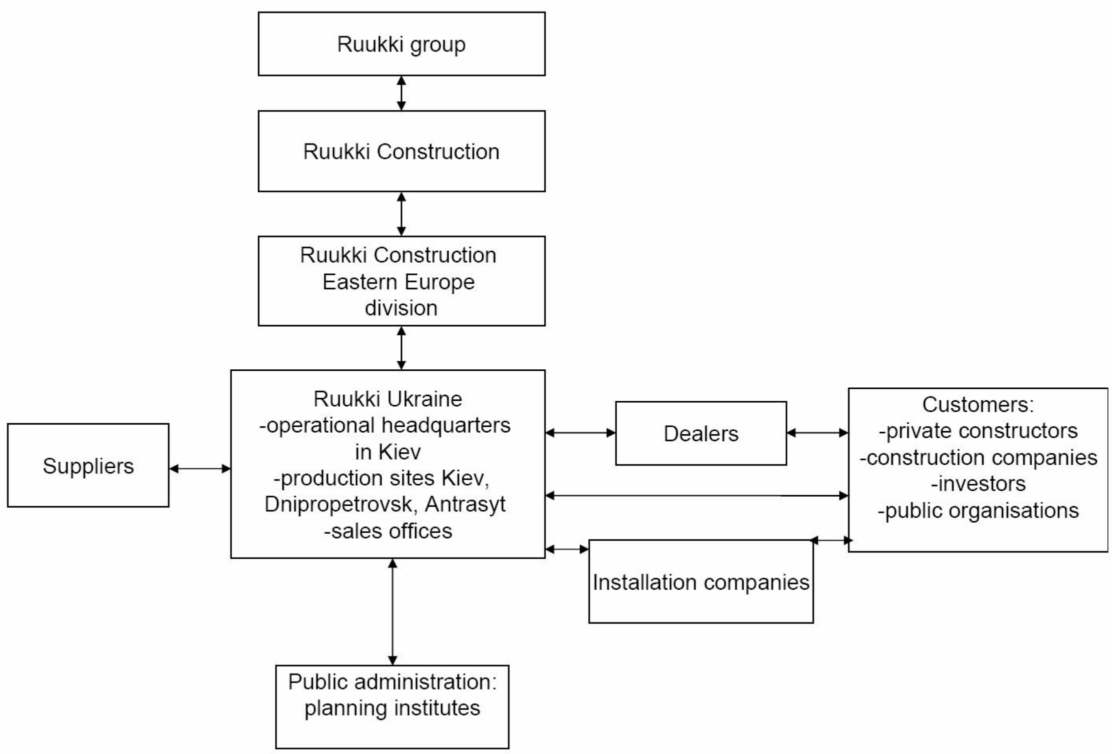
The company has local construction material production in Ukraine although they also import goods to Ukraine. The market was entered in the end of 1990s and business has been developed and enlarged gradually. Existing contacts and networks in other countries were used in the process of entering the country. The activities have started from the production and sales of steel roofs, which is very local business. Simultaneously, the market has grown substantially and using steel roofing materials has also been a new way of constructing in Ukraine. Traditionally, the roofs have been made of bricks.

Ruukki has three production lines producing construction materials in the country: two in Kiev region and one in Dnipropetrovsk located east from Kiev. These production lines are greenfield investments in the sense that the company has founded its own subsidiary in the country, although the production lines are operating in rented facilities. This year Rautaruukki Corporation also completed the acquisition of AZST-Kolor CJSC, which owns a colour coating production line in Antratsyt, in eastern Ukraine. The price of the shares was around € 5 million and the subsidiary was consolidated in Rautaruukki's reporting from June 2006. The unit produces raw material for the construction activities with an annual colour coating capacity of 80 000 tonnes.

The construction production lines in Kiev and Dnipropetrovsk are producing construction materials such as steel roof products solely for the Ukrainian market. Antrasyt, on the other hand is a raw material production unit. In the beginning it will serve the Ukrainian market, but in the future it will also produce material to be exported to Russia and other markets in Eastern Europe such as Romania, Hungary and Poland.

The operational headquarters of the Ukrainian operations are situated in Kiev and the administration and sales of the country are managed from there. One of the production sites is also situates close to Kiev, where the construction is growing very rapidly. Another production site of the construction products in Dnipropetrovsk is situated in the middle of the country. The newly acquired colour coating line with the people responsible for the management of the production in Antrasyt on the other hand is situated in the eastern part of the country, where a lot of heavy production is situated. The company also has about a dozen branch offices handling the sales of the products in different parts of Ukraine to be able to serve the large population in the large area of the country. The sales offices employ people responsible for the sales and handling the documentation and orders in other the branch offices take care of the order process and the customer relationships. The operations in Ukraine employ around 200 people in total. The company also has many partners and important networks in the country (see Figure 1).

Figure 1 Ruukki organisation and local networks in Ukraine



The contact networks and partnerships in Ukraine form a wide entity. One network of the company in Ukraine is formed by the customers. In the residential segment the customers are mostly private buyers who want to install steel roof on their houses. The component sales are still relatively high in Ukraine, which means that basic products are sold in large numbers through dealers or retailers. The dealers also form a network of their own covering the whole market. In the commercial construction the company is supplying to construction companies and investors. The company has also formed networks with architects and planners as well as the public administration, since in Ukraine the public administration still has a very important role and different planning institutes have more influence than in Finland for instance. Suppliers and distributors also form one network.

The company also participates in the installation process of the products, although it does not have own installation operations. Ruukki sells the products installed to the customer and from the customer's perspective Ruukki handles the installation. The installation is outsourced to an installation company network to which the products are delivered and after that installed to the customer.

The majority of the customers are concentrated in the capital region, since construction is growing most rapidly in the Kiev region. The company is however operating in the whole country and the customers are also situated in different parts of the country. The customer base in Ukraine is distinctive in terms of need for a larger retailer or dealer network, compared with Finland for instance where private construction is more do-it-yourself –type and customers buy construction components from hardware stores and install them themselves. A lot of retail activities in Ukraine are also very small scale, so called garage sales, which means that the distribution of products is much more complicated than in Finland. On the other hand, larger construction companies are not yet present in the market and they are also quite small, often comparable to installation companies.

Compared with the whole business area and the total sales of the group, the Ukrainian operation is still not very large. Ukraine is, however, clearly the focus area of the company and it also aims to grow the business in the future. As for the market position in Ukraine, Ruukki is the leading manufacturer of steel roofing sheets, in other words they have the largest share of the market. Also in terms of panel sales, they are also fast attaining the largest market share. Also in terms of low profiles, which can be used in facades and roofs the company is among the three most important players. These are the products which are the basis for the good market position in the Ukrainian market.

Considering competition in the construction sector of Ukraine, the market is not as crowded as in Russia for example. Currently the most important competition comes from the local actors. There are a couple of foreign companies in the market, but mainly, the competition is local. The competition is however likely to increase in the future as more foreign companies understand the possibilities of the market. It is therefore important for the company to develop its competitive advantages in order not to lose its position in the future. The steel roofing sheets of detached houses are still the most important area of business for Ruukki, but alongside with that they have also started to engage with the so called commercial construction, including warehouses and factory sheds, foundations, steel foundations, supporting structures and panels.

Rautaruukki has decided to launch major investment plans with a value of € 50million in Ukraine and Romania. Once these are completed, Rautaruukki will be able to significantly increase its deliveries of components and total deliveries for commercial and industrial construction to customers in Ukraine, Romania and Bulgaria. Rautaruukki is prepared to further expand its business with more investments or acquisitions that are in line with its strategy. Ruukki believes that the future success of the company will increasingly be based on the business opportunities created by the growth in construction in Eastern Europe.

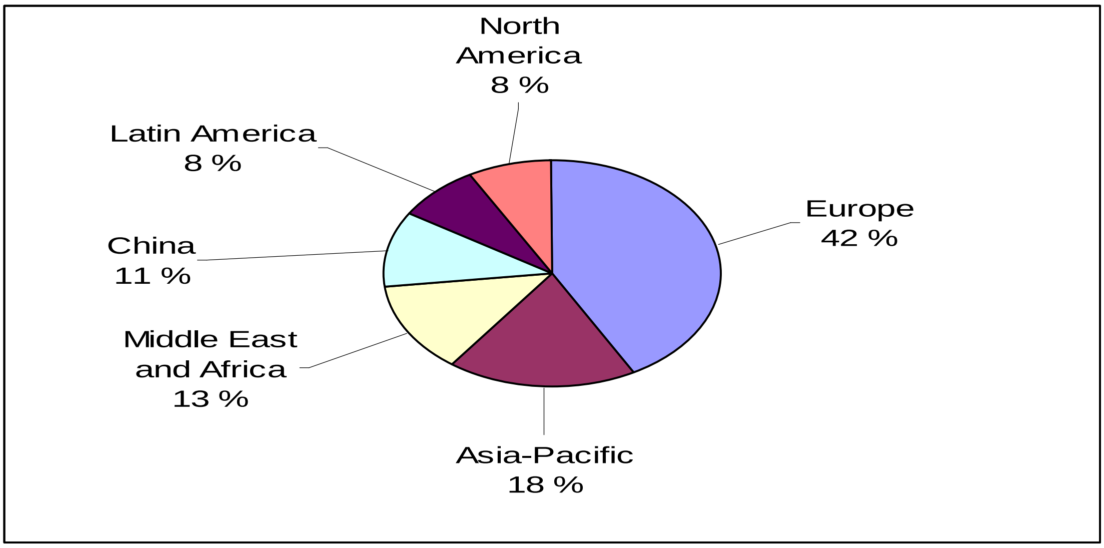
2.2 Nokia Customer and Market Operations[3]

Nokia is one of the best-known brands world-wide. The corporation is also the leading manufacturer of mobile devices and the worldwide leader in equipment, solutions and

[3] The data for this section is based on two interviews with the Nokia Customer and Market Operations manager responsible for the sales in CIS countries, Mika Toivonen, as well as Nokia Corporation website and official documents.

services for network operators. The net sales of the company in 2005 amounted to € 34 billion and the operating profit was € 4,6 billion. Net sales from the mobile phone business reached almost € 21 billion last year and grew by 12% from the previous year. Most of the net sales are generated in Europe and China is the largest market of the company (see Figure 2). Also Russia is among the 10 largest markets of the corporation.

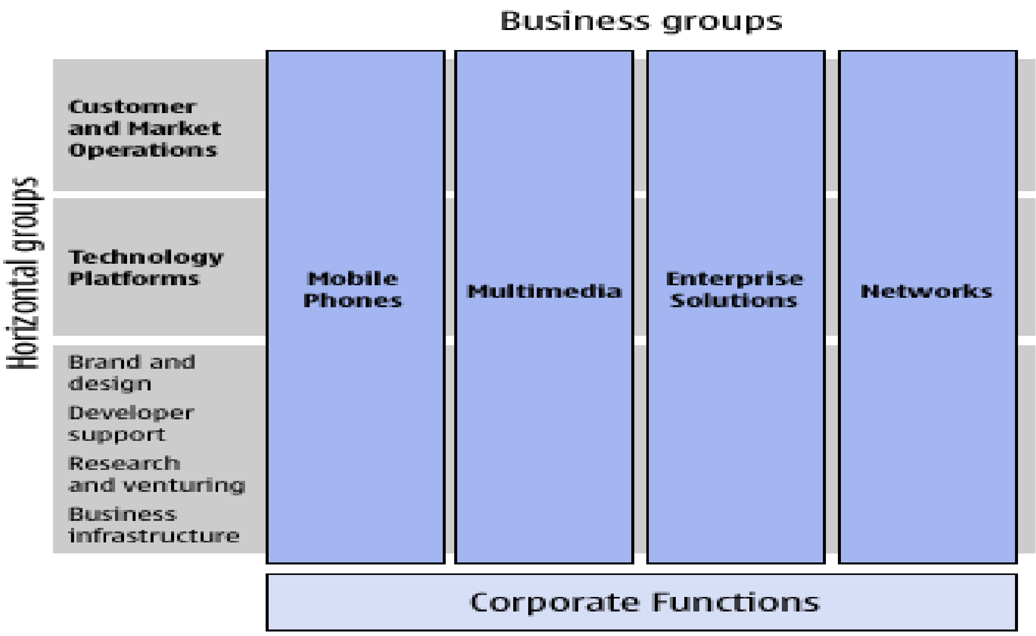
Figure 2 Nokia net sales by geographic area in 2005



Source: Nokia Corporation, 2006

The head office of the company is in Finland and the company has production facilities in eight countries, sales in more than 130 countries and R&D facilities in 11 countries. The corporation employees close to 60 000 people worldwide. Nokia is divided into four business groups, which are supported by three horizontal groups including Customer and Market Operations, which is in the focus of this study (see figure 2).

Figure 3 Nokia organisational structure



Source: Nokia Corporation, 2006

Customer and Market Operations is responsible for marketing, sales, sourcing, manufacturing and logistics for mobile devices from Mobile Phones, Multimedia and Enterprise Solutions. The Networks business group has its own dedicated sales and marketing, logistics and sourcing functions.

Nokia Customer Market Operations has been present in Ukraine since 1999 when the company established a local office which is currently employing around 20 people in the country. The unit's operations include sales of mobile phones and multimedia equipment. Nokia networks responsible for the network operations is also present in the Ukrainian market but this study concentrates on the customer marketing operations of Nokia.

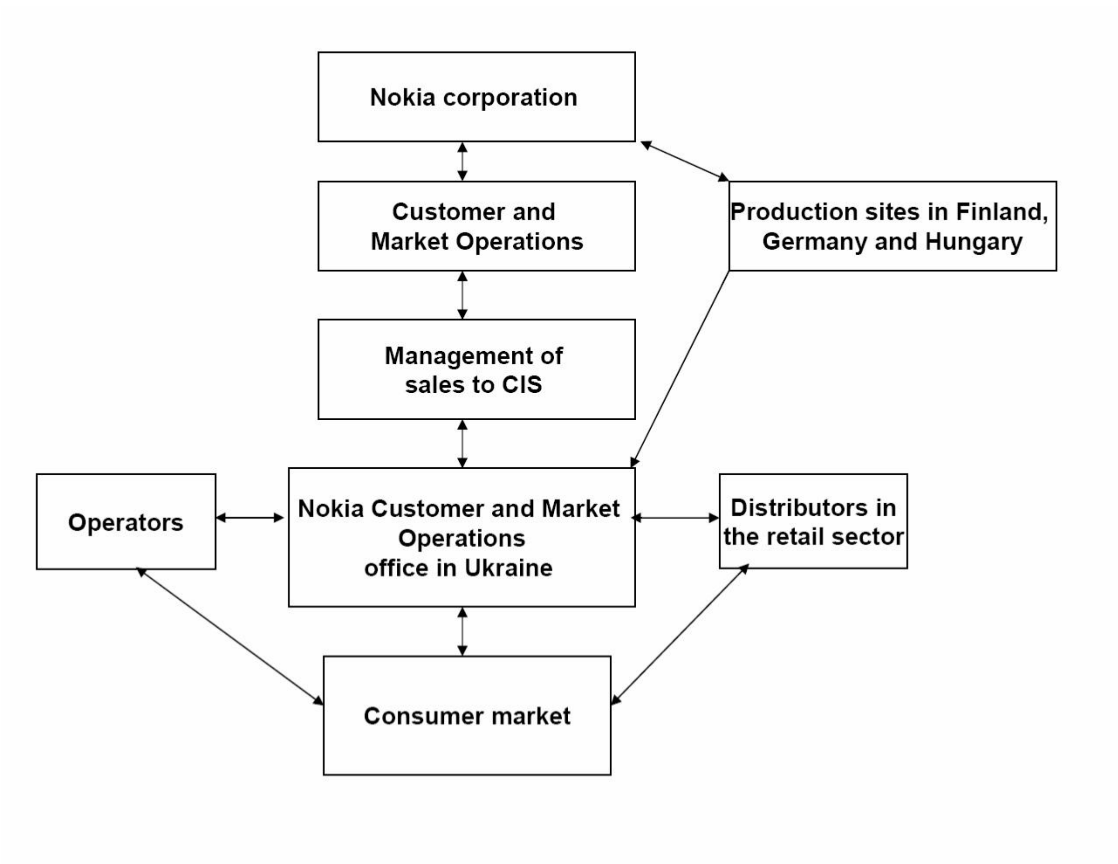
The company has an office in Ukraine, but the sales are still officially operated through the Finnish parent company Nokia Corporation. The role of the local office is in a sense more assisting at the moment, although it engages in full-scale sales activities and their role in advertising is even more crucial. The products are imported to Ukraine from the European productions sites of Nokia located in Finland, Germany and Hungary.

There have been problems with the operating structure for example in Russia. When the dealers have imported the products to the country themselves they have not always paid all the duties and payments. In the Russian market the company has changed the delivery requirements and forcing the dealers to make the payments. This might gradually lead to selling in the name of the local company and importing to the country. In the other CIS countries the development is not so far and the goods are sold in the name of Nokia Corporations.

The first step before establishing an office has always been developing customer contacts, which in this case has begun when the networks have been opened. In Ukraine the first network opened in the mid 90s after which it was possible to find customers. The activities have developed by forming customer relationships and when the company reached enough customers in the markets they decided to establish an office in markets. The development of the local operation started from a local agent that Nokia had in Ukraine a few years before establishing the office in the country. The company finally took control over the operations of the agent and the staff and changed it into a Nokia office.

The Customer and Market Operations are managed from Finland, but all the employees in Ukraine including the management of the office are local. The manager of the CIS operations visits the country regularly and common meetings with the sales people from other CIS countries are organized in the local offices. These meetings are also connected with meeting customers in the local markets and increase the communication between the different sales units in the region (see Figure 4 for the organization structure of the operations).

Figure 4 Nokia organisation and partner groups in Ukraine



The local office in Ukraine is situated in the capital region in which the growth of the mobile phone market has been very fast. The location is therefore logical as this is the largest market in the country for the mobile phone distributors.

The target groups and products in these markets are basically the same as in other markets. The products are sold to dealers and also operators purchase a part of them. In Ukraine, however, it is quite unusual that the operators buy mobile phones whereas in Western Europe operators buy a large share of the products. In Ukraine the operators usually only sell the subscriber connections through the dealers selling the phones. Nokia, however, also cooperates with the operators, for example by discussing the new technologies they are introducing in the market, so that the networks of the operators would be ready to support them when the new functions become available.

The distributors of Nokia in Ukraine are different from Western Europe in the sense that for example in Finland some of the retailers selling the products are owned by operators. Whereas in Ukraine the distributors are mostly independent entrepreneurs, who have established a company and started to sell the phones in the market. This is due to the different development stage of the business and the lack of large retail chains.

The differences in the business also arise from users of the products which are consumer goods. The products are finally sold at the consumer market which is therefore an important interest group of the company, although there is no direct sales contact between the company and consumers. It is important to be aware of the preferences of the consumers and the company therefore constantly follows the developments in the market.

The sales to Ukraine alone exceed the sales to Finland and the Baltic countries. Ukraine is the second largest market among the former Soviet states after Russia, although the sales figures are still considerably lower than in Russia. Ukraine is also interesting in the sense that the market share of Nokia in the country is better than the average share in the rest of the world whereas in Russia for instance the market position is not as strong.

The competitive situation in the country is somewhat different compared with the total markets in this business. Samsung, LG and the Koreans in general been very active in the markets. In these countries Samsung has the second largest market share whereas in the whole world Motorola holds the second largest share of the total markets after Nokia. The competitive position has been attained by means of a well-known brand and products of good quality.

At the moment Nokia is also establishing offices to Belarus, Moldova and Georgia. The remaining potential markets in the region will be managed from the existing offices in the nearby countries. Gradually Nokia plans to enter all the important markets in the region.

3 Business environment in Ukraine[4]

3.1 Experiences in mobile phone and construction material markets

According to both companies the business environment and doing business in Ukraine are mostly positive and they point out that many foreigners have negative preconceptions of Ukraine, which can guide the decision making concerning entering the country.

> *People don't know the country. Everything works fine there. I think if you believe in your vision, you just have go into the country. You can make things work there, but you also have understand to rely on the local workforce.*
> (Vouti, 2006.)

The companies also point out that homework has to be done properly before entering the market. The Ukrainian market is not, however, seen as very difficult or different in the sense that it is important to have knowledge of the market and the local ways to do business as in any foreign market before entering the country.

> *It is, however, not an easy place, where you can go just like that. You will certainly get your fingers burnt if you do not take it seriously.*
> (Vouti, 2006.)

Both of the interviewees also stress the importance of good contacts. Also **local connections** was emphasised in discussions both companies.

> *You need to have good contacts and talk with people who have already operated there. We have also done that in the sense that in Ukraine the development of the local operation started from a local agent which we had there a few years before establishing the office in the country. We took control over the operations of the agent and the staff and changed it into a Nokia office. It was a natural chain of events.*
> (Toivonen, 2006)

[4] The data for this and the following chapters is based on interviews with Ari Vouti (Ruukki Construction) and Mika Toivonen (Nokia Customer and Market Operation)

Ruukki representative also pointed out that the customers in Ukraine require different approach in terms of **marketing**. The clientele, both current and future customers is wider and it is growing all the time and attaining sufficient attainability in the market requires more than in many other markets. For example in the Nordic countries the attainability is already better and the company already knows the customer base and potential customers better and also the customers know the products better. Therefore marketing communication has a more important role in Ukraine and for example advertising in different media has an important role, because the company needs to attract new customers and increase its recognition among the customers.

From Nokia point of view the differences in marketing and products arise from users of the products in the consumer good market. As the products are finally sold at the consumer markets the local preferences of the users have to be studied constantly as they affect the products offered to the markets. The preferences of the consumers in Ukraine are clearly different from the consumers' in Western Europe:

> *It is a kind of a paradox that we sell much more so called premium products in these countries compared with the Western European markets, meaning products from the highest price range. In these countries the people who can afford it really want to buy expensive products and show that they have money.*
> (Toivonen, 2006.)

Nokia even sells mobile phones with multimedia and other services which are not available in the countries yet. There is demand for these products since they are considered as status symbols and it is important for the consumers to have the latest models in the markets. Ukraine is among the largest markets in Europe for phones such as the model 8800 which is a premium mobile phone and costs around 1000 euros in Finland. This is also connected to the looks of the products which also more important than in the Western countries and it is therefore more important that the phone communicates an expensive image. Regardless of the differences in the preferences of the consumers, marketing communication and operating in the markets in general is quite close to the Western Europe.

Considering **competitive environment** from the point of view of the companies for Ruukki operating in Construction material sector, the most important competition comes from the local actors. There are a couple of foreign companies in the market, but mainly, the competition is local.

> *If you consider the competition, Ukraine still has not been noticed as much as Russia. When more people start to understand the possibilities of the market, the competition will also increase. To be able to handle the increasing competition will be an important challenge in the future, in order not to loose the position in the market. It will probably affect more the residential side of the business, because it is consumer business and entering that kind of market is relatively easy.*
> (Vouti, 2006.)

For Nokia the competitive situation in the countries is somewhat different compared with the total markets in this business that the Korean players have been very active in the markets. In these countries Samsung has the second largest market share whereas in the whole world Motorola holds the second largest share of the total markets after Nokia. The increasing competition in many sectors has also been noticed by both companies

> *On the other hand there are quite many newcomers to many sectors from Central Europe and the competition is increasing.*
> (Toivonen, 2006.)

In the mobile phone market the penetration is already over 60 % and the country is still in the phase of strong growth in subscriptions. In this phase there are also more opportunities for dealers, but when the growth decreases, weak players will not survive and it is important for Nokia to prepare to the situation in order not to have a credit losses. This also applies to many other sectors which are growing rapidly at the moment.

3.2 Positive and negative features of the market

The possibilities offered by the market are based on the **size of the market** and the **growth** in the sectors the companies are operating in. Both of the companies have been able to take advantage of emerging sectors in the phase of strong growth and introduce products with good quality to markets with high demand.

> *In a way it has simply started from doing. We haven't had to create demand, because the demand already existed there. Steel roofing was also a new way of constructing in Ukraine. Traditionally, the roofs have been made of bricks.*
> (Vouti, 2006.)

The business environment is, however, challenging as well. From the viewpoint of Ruukki Construction one of the most important problems is the **availability of educated workforce**, or workforce in general. Another problem is maintaining the employees. Controlling the **wage and cost levels** also creates challenges, even anticipating it approximately in advance can be difficult. The wage levels are rising very rapidly as the number of Western companies entering the market is increasing continuously and also the local companies are developing. Thus the demand for skilled employees is increasing and people with a good or at least moderate education and a work experience in a Western company are in a great demand.

Ruukki has not encountered significant problems with **corruption** or **bureaucracy** and Vouti does not consider these issues to have had any considerable effect on the business in Ukraine.

> *Of course, it takes more time to get things done, but corruption or crime we have not come across at all. So these issues are not a real problem for us in Ukraine. I would like to say that they create more problems even in Russia.*
> (Vouti, 2006.)

Nokia points out that interaction with the officials in general is not very easy compared with many other countries including Russia and some problems with bureaucracy have been noticed, but they have not had very serious consequences.

> *There have been some incidents with for example the tax police and other authorities knocking on the door and asking for some papers, but we have always been able to cope with the situation.*
> (Toivonen, 2006.)

Infrastructure and distribution in Ukraine create many challenges, but also many possibilities for Ruukki and Nokia. The infrastructure is still quite undeveloped and that creates a possibility for foreign companies to provide the needed developments.

> *There are always problems with distribution and infrastructure in these kinds of countries. I would say that the problem is the lack of developed and functioning **retail business**. There are many wholesalers who base their business in the fast circulation and sale of the goods. That is how they can earn the money easily without investing large amounts in business spaces and anything lasting such as human resources including sales stuff. Western companies entering the markets could bring know-how into the activities.*
> (Toivonen, 2006.)

It can, however, be said that the lack of infrastructure also increases the business of Ruukki as the business is also largely based on building the infrastructure. The situation in Ukraine is also good in the sense that compared with Western Europe there is more demand for new construction production, which is more suitable for Ruukki products. Also the network business of Nokia can take advantage of the demand for developments in the telecommunication infrastructure. The most important problem is, however, the lack of developed and functioning retail business, which affects the distribution of the products.

There might also be some problems related to the **foreign status of the company**. Nokia is considered a Finnish company although it is in practice more an international company. Finland and Finnish products generally have a good reputation in Ukraine. Ruukki has also been in the market for a long time and has a very good public image. It is among the best known companies operating in the construction sector of Ukraine. Having a good reputation is a positive asset for example in the labour market, but according to Vouti it can also attract people who are only pursuing their own interests and trying to take advantage of the profitable company.

The companies have not encountered many problems or discrimination, although foreign companies in general are inspected more thoroughly.

> *I would say that foreign, Western companies have a certain status. If you consider for example the difficulties in acquiring suitable workforce, I can imagine, that it is even more difficult for the local companies.*
> (Vouti, 2006.)

The role of **local partners and networks** is considered to be very important by the companies in the focus of this study and they state that it would be difficult to operate alone in these markets. It is therefore very important to find the partners and these companies have been able to create these relationships very efficiently.

> *You need to have good contacts and discuss with those who have operated there.*
> (Toivonen, 2006.)

The Ukrainian market is not, however, seen as a very difficult market compared for example with Russia.

> *In my opinion many things are working better than in Russia. Kiev is more like a rural town compared with Moscow for example. In that sense it is not as hard a place.*
> (Vouti, 2006.)

The companies, however, emphasise that Ukraine is not an easy market and the competition is increasing in many sectors.

> *There are many companies from Central Europe already and new ones entering all the time. You have to remember, that the trade has changed since the Soviet trade, when Finland had a special position. But I believe that the people who are doing business there have already understood that there is not such a status anymore and we are in the same position as companies from any other country.*
> (Toivonen, 2006.)

3.3 Importance of local workforce

The operations in Ukraine are run totally by means of local workforce and there are no Finnish expatriates in the country. In the case of Ruukki the first country manager was Estonian, and very soon after the establishment of the unit the management was totally localised. Nokia established the office in Ukraine by taking over the operations of their former local importer in the country. In other words, they acquired the local staff and the contacts the importer had built in Ukraine. The importance of local workforce in Ukraine is reasoned by the knowledge the local people possess concerning the local ways and circumstances. In the case of Nokia, Toivonen pointed out that using local workforce is also based on cost efficiency, although the benefits of local knowledge are the most important reason for the arrangement.

> *It is essentially important that we have local workforce in these countries, since construction is very local business. It brings us closer to the market and the customer. It also accelerates the decision making, since the local employees know the circumstances in the country. Since we have been there for so long, we have also learnt to be able to find the right people, and they have also internalised the Ruukki world. The local people also know how to work in an international environment and we have very good experiences of the use of local work force in these countries.*
> (Vouti, 2006.)

Both companies also emphasise that the local people and local knowledge are very important for successful business in Ukraine.

> *In a way you are behind the curtains if you go there as a white-haired, blue-eyed, red-cheeked gentleman from Finland to discuss something. I think it is easier to succeed in discussions both with customers and officials if you have a local representative in the negotiations, who knows how things work and how they don't. In my opinion it is a prerequisite for success.*
> (Vouti, 2006.)

The establishment of solely local operations of the companies is based on a successful recruitment of a good local management team. Ruukki, however, emphasises that local employees in Ukraine require a lot of training. In Ruukki the orientation of the new recruits to their duties is realised locally by the subsidiary and the company has developed certain operation models for the training and orientation, which could include product knowledge and technical training. Generally all new recruits receive the training in the local unit and it is given by the subsidiary regardless of the function of the employee. Training and education concerning global Ruukki operation models, however, depending on the subject is originated from the centralised organisation of the group, or alternatively the central management organisation has outsourced the training to a consult. Although the subsidiary in Ukraine is operated totally by local employees and a local management reporting to the regional management in Finland, Ruukki emphasises that there have not been any problems with the organisation or control of the subsidiary. This is due to good workforce and successful recruitment process as well as a clear management model. One person is responsible for the management of the country's operations as a whole and reports to the regional manager. The direction of control is very clear. (Ari Vouti, 2006.)

4 Local presence and important sources of competitiveness in Ukraine

The primary motive for entering the Ukrainian market and establishing a local presence in the country has been market seeking in both cases under investigation.

In the case of Nokia as the market has grown large enough the company has seen it necessary to handle the operation locally, because operating solely from Finland would not have been as efficient anymore.

> *When there were no operations in these markets yet, I started by just travelling there and meeting customers. But when the business grows enough it has to be operated locally. Especially in Ukraine since the market is growing very strongly and it becomes more and more important.* (Toivonen, 2006.)

Compared with the mobile phone markets in Western Europe Ukraine is still in a very different development stage, since in Western Europe new subscriptions are very rare and the emphasis is on the replacement market and consumers are changing the phones to new ones. This means that operator might not be involved in the trade at all anymore. This is a new situation, since in many countries the operator has supported the sales of the phones a lot and has been an important customer for the phone providers and cooperation with the operators has been crucial. Selling in the consumer markets means very different rules for the company, since the operator is not interested in selling just a phone.

In Ukraine and other CIS countries operators are also to some extent interested in buying the phones or subsidise the price, in other words similar means which have been used in Western Europe before. The development stage is, however, still quite different. Ukraine is growing very rapidly at the moment and will continue still for a couple of years, but after that the growth rates of new subscription connections will start to decrease and it will start to develop into a replacement market which has traditionally been a very strong market situation for Nokia.

Growing demand for construction services is also the primary reason for Ruukki to operate in the market. Central Eastern European economies are growing and consequently construction sector in these countries is growing, even faster than many other sectors. (Ari Vouti, 2006.)

> *The residential side is in a way stabilising already. Then there is the commercial construction including retail chains, logistics centres, factory sheds. Retail chains are also entering the markets, both local and international. That leads to increasing demand for a developed logistical system. And then at some point local production is started. So it is a logical chain of development. In addition, the consumption and demand of the population is growing, which makes the market very attractive for construction companies.*
> (Vouti, 2006.)

Steel construction also enables many new possibilities and is very suitable for these types of markets. It shortens the time of construction, and at the same time the whole lead-time of the projects. It also decreases the risks, because the predictability of the timetable increases. Many parts can be produced already in factory conditions instead of on site. This enables the transportation and installation of many parts that have been produces elsewhere.

Retail business is also developing as the consumption and demand is growing. This leads to increasing demand for a developed logistical system and makes the market very attractive for construction companies. Infrastructure and distribution in Ukraine create many challenges, but also many possibilities for construction. The infrastructure is still quite undeveloped and that creates a possibility for Ruukki to provide the needed developments. The situation is also very positive, compared with Western Europe, in the sense that in Ukraine there is more demand for new construction production, which is even more suitable for Ruukki products than renovation construction.

Steel roofing was also a new way of constructing in Ukraine when the company entered the market. By entering the market with a comparatively new product with high demand the company was able to use its existing assets in a new market with less competition than in its traditional markets and develop a good market position. The company has been able to use its knowledge of production technologies superior to local ones and simultaneously take advantage of growing demand in the host country. The situation was quite similar in the telecommunication sector when Nokia entered the market after the networks opened and the demand for mobile phones started to boom.

One of the sources of competitiveness of the companies in Ukraine is the use of local workforce. According to the case companies it is very important to have local workforce running the operations in Ukraine. Local knowledge of the markets and partners important for the business affect the profitability of the company. Since the market and circumstances in Ukraine differ from the home market of the company, they see many benefits in using local workforce instead of expatriates. Local management and workforce bring the company closer to the market and the customer and accelerate the decision making, since the local employees know the circumstances in the country. Business practices in Ukraine also differ from Western countries. Local employees can be especially beneficial in situation where local parties try to take advantage of a Western company by asking for higher prices. According to the company, the local workforce helps them not to be deluded and it is easier to succeed in negotiations with customers and officials, if the company uses local representatives.

The local management and employee team have also been able to build a vast contact and partnership network of different actors important for the business, especially in the case of Ruukki and the network of local actors and partners is crucially important for Ruukki in order to ensure the successful distribution and installation of the products. Relationships with the public administration also have a very important role in this context, since they have a strong influence in the construction sector. Finding reliable partners and establishing long-term relationships with them is very important for the business.

5 Concluding remarks – Issues to consider when operating in Ukraine

Ukraine offers foreign companies possibilities for growth in many sectors. In this study the focus has been on construction and telecommunication markets, which have both been very attractive for foreign companies because of growing demand and strong potential for new customers. Although only these two sectors are represented in this study, the experiences of the companies can provide information about issues, which are important also more generally considering foreign and especially Finnish companies operating in the market.

The case companies have used their **ownership advantages**: *knowledge and techniques* and at the same time been able to take advantage of favourable market conditions with growing demand for the products. The decision to establish local operations in Ukraine has been affected by the need to be close to the market and acquire local knowledge and inputs.

Being able to introduce relatively new products with better quality compared with the local producers is an important source of competitiveness for the company. Acquiring local knowledge and adapting to local conditions have also proved to create competitive advantage. The knowledge of local conditions and practices is enabled by **local management** of the operations and **networks of local partners**. Also relations with public authorities are better handled with local staff.

The importance of local knowledge and networks in the local community were found to be crucial for the success of the companies' operations. The companies possess technical knowledge of products which are superior to the local counterparts, but in order to be able to use the asset the company found it important to have local managers and networks in order to gain success in the market. Especially, when more foreign companies are expected to enter the market in the future, companies need to develop their existing competitive advantages in order not to lose their position in the host market.

Considering the experience gained in Ukraine, the importance of the **recruitment process** of the management is emphasised. It is important to be able to retain good employees after they have been recruited. Ruukki representative also emphasised that rewarding the employees and offering bonuses should be considered even more than in other countries. Creating effective incentive systems can help keeping the good employees once they have been internalised in the company. Also operating locally and having a clear management structure have proven to be important factors in the success of the company.

> *You should never think that this is just Ukraine, because you also have to be able to keep a certain quality standards there as well. We want to achieve quality in everything we do and how we are seen in the country and what kind of work environment we offer for our employees and how we take care of them. Then you are not entirely controlled by the rising wages, since people might start to consider other aspects as well and want to work in a Western company.*
> (Vouti, 2006.)

Local presence also enables the company to be close to customers and the network of related companies. Especially for Ruukki's business operations in production and sales of steel roofs, the local presence is important, when most important parts of the company network are local and products are also manufactured locally. Most of all in Ukraine the situation is emphasised with a customer base spread in a large area and relatively small individual operators. Also in the case of Nokia, the local office has been considered to increase effectiveness and develop knowledge of local preferences and customer relationships.

The challenges in the business arise from different business environment including more problems such as **bureaucracy**. Neither of the companies under investigation reported significant problems with bureaucracy of corruption although the ranking of Nokia in international corruption index comparisons has been quite low. This might be partly due to the local employees the companies are using, since they might be more prepared for the challenges of the business environment. Also the long experience of the companies in the region and the size of the companies can create them benefits in the sense that it is easier for them to choose the right partners and avoid the problems in the market as they have more resources than many small companies.

Retail trade is also creating problems as it is less developed and organised than in Western Europe and this affects the distribution of companies operating in the consumer goods market. **Marketing** has to be adapted to local conditions. Finding suitable workforce and retaining good employees without high increase in the staff costs is also a challenge.

Although the results of this study concentrating in the experiences of two Finnish companies in Ukraine cannot directly be generalised in other contexts, the sources of competitiveness found in the operation of the company may be valuable also for other companies engaging in activities or considering entering the market. It is, however, important to understand that these companies are special cases and posses many advantages which many other companies might lack. Both cases are part of large and strong corporations with long experience of operating in the region. The sectors represented by the companies have also been one of the most rapidly growing in the country. The position of the companies has in other words been maybe more favourable than for example smaller companies entering the country with less experience from similar circumstances.

Keeping in mind the limitations of this study and the beneficial features of the companies the experiences of these two examples can, however, be quite encouraging for other Finnish companies considering Ukraine as a business possibility. The business environment according to these findings is not described to be as difficult as many foreign companies fear. By means of knowledge of the market and good partners and connections it is possible to engage in profitable business in Ukraine. The size of the market combined with growth in most sectors enables the development of profitable business in the country. The markets in many sectors are also still less competitive than in Western Europe or in Russia for instance. Now is in other words an opportune time to consider entering the market and taking advantage of the possibilities of offered by this country.

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