

THE BELARUS BUSINESS
ENVIRONMENT
AS ASSESSED
BY THE MANAGEMENT
OF LEADING FINNISH
COMPANIES OPERATING
IN THE COUNTRY

*Kari T. Liuhto**



Inward foreign investment stock has grown remarkably in Belarus. It increased tenfold since 2000 to reach over \$14 billion by the end of 2012. According to the Central Bank of Belarus, Finnish firms have invested nearly \$100 million in Belarus making Finland the sixteenth most active foreign investor in the country. Approximately 7,000 companies with foreign capital were registered in Belarus by the beginning of 2013. Finnish companies founded three dozen of these foreign firms. A lack of scientific reports on the perception of foreign businesspeople in the Belarusian business environment necessitated an empirical study. This article studies the attitudes of the directors of Finnish firms operating in Belarus on the Belarusian business environment. In September-October 2013, the author conducted interviews with directors of 10 Finnish corporations. The PEST model was used to describe the perception of the Belarusian business milieu by Finnish businesspeople. The main empirical finding can be summarised by quoting a Finnish CEO, "Belarus is like any other market on the globe with the exception that foreign firms do not want to attract publicity about their activities in the country due to the poor public image of Belarus."

Key words: direct foreign investment in Belarus, Belarusian business environment, internationalisation of Finnish companies

1. Background and objective of research

Belarus has attracted a relatively small amount of foreign direct investment (FDI). At the end of 2013, the inward FDI stock of Belarus totalled to only USD 17 billion. The sum corresponds to the inward FDI stock of Lithuania, the neighbour of Belarus. When comparing Belarus with Lithuania, one should keep in mind that Bela-

* University of Turku 3
Rehtorinpellonkatu, Turku,
20500 Finland

Submitted on October 19, 2014.

doi: 10.5922/2079-8555-2015-1-3

© Liuhto Kari T., 2015

rus is three times larger than Lithuania in terms of population. Azerbaijan, another ex-Soviet republic, with almost the same population size as Belarus has received a bit less foreign direct investment, USD 14 billion, than Belarus. On the other hand, the Czech Republic, where the population size is a bit larger than in Belarus, has gained close to USD 140 billion as FDI by the end of 2013 [20].

The majority of the FDI in Belarus is of non-Western origin. According to the National Bank of the Republic of Belarus (2014), over 60 per cent of the Belarusian inward FDI stock has been generated by the Russian firms alone. Cyprus is the second largest investor in Belarus. Assumingly, a great part of the Cypriot FDI in Belarus is either of Russian or Belarusian origin. Austria is the largest genuine Western investor with a four-per-cent-share of the Belarusian inward FDI stock. Finland occupies the sixteenth position with investments of approximately USD 90 million. With the aforementioned amount, Finland accounts for close to one per cent of the inward FDI stock of Belarus (Table 1).

Table 1

20 largest foreign investor countries in Belarus by beginning of 2013

Rank	Country	Total foreign investment (USD million)	Share (%)
1	Russia	9037	62
2	Cyprus	1638	11
3	Turkey	527	4
4	Austria	474	3
5	Netherlands	355	2
6	Germany	263	2
7	United Kingdom	218	1
8	Iran	217	1
9	Italy	178	1
10	USA	168	1
11	Estonia	135	1
12	Latvia	131	1
13	Lithuania	108	1
14	China	93	1
15	Lebanon	92	1
16	Finland	86	1
17	Switzerland	85	1
18	Poland	68	0
19	Ukraine	61	0
20	Sweden	48	0

Source: [11].

Trade has allured foreign investors the most. Trade covers a bit more than a third of the Belarus inward foreign investment stock. Concentration on trade has been a common feature in the majority of the transition countries in the early steps of their economic transition. When the investment climate of Belarus matures, the share of industry as an FDI target obviously grows. Now, it is a bit less than a quarter. The share of transport and com-

munication, a third, is unusually high. This is probably due to the heavy investment by the Russian gas giant, Gazprom, to Beltransgaz, a company responsible for the transportation of natural gas through Belarus. Gazprom has already gained the full ownership in Beltransgaz (Figure 1).

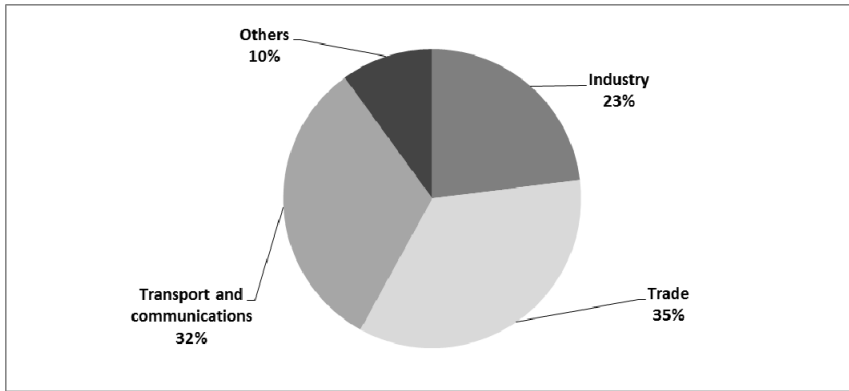


Fig. 1. Distribution of the foreign investment stock by sector by end of 2013
Source: [17]

Three quarters of foreign investment has found their home in the City of Minsk despite the fact that the capital city represents only a quarter of the Belarusian GDP. The Minsk region surrounding the capital has lured slightly more than a tenth of all foreign investment. The remaining five regions, namely the Brest, the Gomel, the Grodno, the Mogilev, and the Vitebsk regions, together have attracted only 15 per cent of all the foreign capital in the country. The overwhelming concentration of foreign investment in the capital and the region surrounding it is another indicator suggesting that the foreign investment development is still at its infant stage in Belarus, i.e. also other transition economies have encountered similar over-concentration in the capital in the early stages of their FDI development (Figure 2).

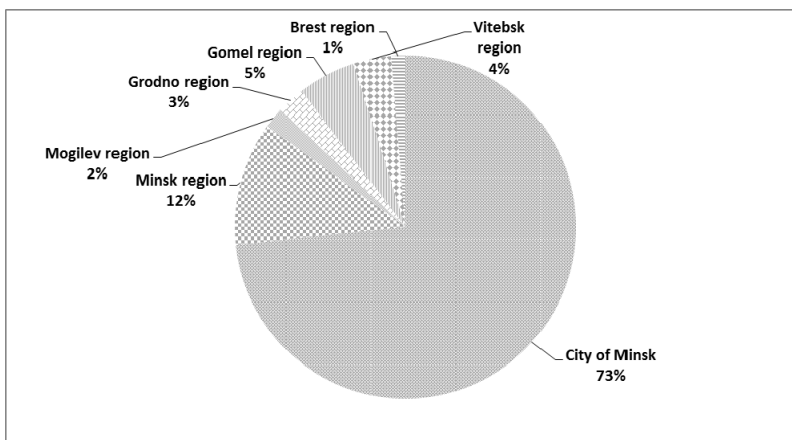


Fig. 2. Division of the foreign investment stock by region by end of 2012
Source: [16].

As the FDI inflows from the West to Belarus have remained minimal, it is understandable why scholars have not conducted many empirical studies on how Western firms operate in the Belarusian business environment. I could, however, find some reports dealing the Belarus business environment, but they were more statistically-based macroeconomic analyses [3, 6, 7, 23, 24], commercially-oriented business guides [9, 10, 18] or general business descriptions [8, 27, 28] rather than empirically-based scientific studies.

I was able to find only one relevant empirical research. Even if it is not a scientific study by nature [13], it gives an idea how Western (German) firms perceived the Belarus business environment in spring of 2013. Approximately 50 German-owned firms participated in the survey assessing the Belarusian business environment. This survey indicated that three main weaknesses of the Belarusian business milieu can be found in: (1) the predictability of the economic policy, (2) the transparency of tenders and (3) the quality of financial services. Correspondingly, the best assessments were given to the infrastructure, the quality of workers, and payment discipline.

Another analysis worth referring here is the report published by the World Bank. The World Bank [25] ranks Belarus fifty-eighth among 185 countries in ease of doing business. It is interesting to note that Poland ranks only three positions higher than Belarus on this list. The World Bank suggests that Belarus ranks the third best in the world among those countries, which has improved its business environment since 2005. The reason for such an impressive development is the relatively low starting point (Table 2).

Table 2

Assessment of the Belarus business environment

BELARUS		Eastern Europe & Central Asia		GNI per capita (US\$)	5,830
Ease of doing business (rank)	58	Upper middle income		Population (m)	9.5
✗ Starting a business (rank)	9	Registering property (rank)	3	Trading across borders (rank)	151
Procedures (number)	5	Procedures (number)	2	Documents to export (number)	9
Time (days)	5	Time (days)	10	Time to export (days)	15
Cost (% of income per capita)	2.3	Cost (% of property value)	0.0	Cost to export (US\$ per container)	1,510
Minimum capital (% of income per capita)	0.0			Documents to import (number)	10
		Getting credit (rank)	104	Time to import (days)	30
Dealing with construction permits (rank)	30	Strength of legal rights index (0-10)	3	Cost to import (US\$ per container)	2,315
Procedures (number)	12	Depth of credit information index (0-6)	5		
Time (days)	130	Public registry coverage (% of adults)	56.2	Enforcing contracts (rank)	13
Cost (% of income per capita)	24.8	Private bureau coverage (% of adults)	0.0	Procedures (number)	29
				Time (days)	275
Getting electricity (rank)	171	Protecting investors (rank)	82	Cost (% of claim)	23.4
Procedures (number)	7	Extent of disclosure index (0-10)	7		
Time (days)	179	Extent of director liability index (0-10)	1	✓ Resolving insolvency (rank)	56
Cost (% of income per capita)	838.8	Ease of shareholder suits index (0-10)	8	Time (years)	3.0
		Strength of investor protection index (0-10)	5.3	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	43.0
		✓ Paying taxes (rank)	129		
		Payments (number per year)	10		
		Time (hours per year)	338		
		Total tax rate (% of profit)	60.7		

Source: [25].

The political system of Belarus is far from a European ideal and the state plays a patronising role in the Belarus economy; nevertheless, the World Bank assessment indicates that the Belarus business environment is more normal than the Western media would lead us to think. This paradox encouraged me to conduct an empirical study among the Finnish firms, since a foreign businessman can provide a more reliable source of information than foreign journalists, who usually spend a very limited amount of time in the countries they are reporting on.

The main objective of this research is to reveal how Western (Finnish) firms operating in Belarus perceive the Belarus business environment.

2. A theoretical note on the business environment of a firm

The study of Astley and Van de Ven [1] is probably one of the most referred contributions dealing with the environment-organisation relationship. The scholars divide the aforementioned relationship into deterministic and voluntaristic orientations. The deterministic orientation does not focus on individuals, but on the structural properties of the context within which the action unfolds, and hence, individual behaviour is seen as determined by and reacting to structural constraints. Respectively, while approaching human behaviour from a voluntaristic orientation, individuals and the organisations are autonomous, proactive, and self-directing agents. Individuals and organisations are seen as sources of change. With these orientations and macro and micro level approaches, Astley and Van de Ven divided theories into four main views: (1) natural selection view; and (2) collective-action view at the macro level; and (3) system-structural view; and (4) strategic choice view on the micro level.

Numerous scholars have attempted to define, characterise and specify business environment (e.g. [2, 4, 5, 12, 21, 22]). As the space of this article does not allow me to go all of them through, I just have chosen one, which is applicable for the purpose of this study.

Cherunilam [5, p. 1] writes as follows: “*the term business environment is often used to those external factors which influence business. However, sometimes it is used in a very broad sense to refer both the intern and external factors which influence strategic business decisions.*” In this article the internal business environment is not focussed on, as the main objective of this research is to describe the overall business environment of Belarus and how foreign firms are able to cope with it.

Cherunilam divides the external business environment into macro environment and micro environment. The micro environment consists of the actors in a firm’s immediate environment. These include the suppliers, intermediaries, competitors, customers and public. Correspondingly, the macro environment consists of larger societal forces that affect all the actors in the firm’s micro environment, namely the political, economic, socio-cultural, technological, demographic and natural forces.

Cherunilam [5, p. 8—26) continues: “*Economic conditions, economic policies and the economic system are important external factors that constitute the economic environment of a business. ... Political and government environment has a close relationship with the economic system and eco-*

conomic policy. ... The socio-cultural fabric is an important environmental factor that should be analysed while formulating business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences, etc., of a people could be very high. ... The type of technology is use, the level of technological developments, the speed with which new technologies are adopted and diffused, the type of technologies that are appropriate, the technology policy etc. are important to business. ... Technological environment of the use of facilities etc., also have very important implications for business.”

Some of the scholars have focused on the environment of international business [14] or its cultural part [18]. Moreover, some have studied the impact of business environment on the economic development of a country [26]. However, their contributions are not discussed here, since they do not explicitly support the implementation of this research.

This research approaches the Belarus business environment from a voluntaristic orientation at the micro level keeping in mind the constraints of the prevailing system to a firm. This research focuses on the external business environment of Belarus, and more precisely on the macro environmental part of it, since the goal of this research is not to analyse case companies' external business network but rather the overall macro environment of Belarus, affecting all the companies operating there. The following chapter describes how the empirical part of this research was carried out.

3. Accomplishment of empirical research

Before the empirical journey was begun, a statistically-oriented desk research on foreign firms in Belarus was conducted. I found out that close to 7,000 companies with foreign capital have been registered in Belarus by the beginning of 2013 [16]. In order to have a more accurate picture on the active Finnish enterprise population in Belarus, I interviewed two Finnish experts, who have long experience on Belarus. One of the experts was the head of Finland's liaison office in Minsk under the Finnish Ministry for Foreign Affairs and another one was the chairman of the board of the Finnish-Belarusian Chamber of Commerce. These interviews were conducted at the end of August and in the beginning of September 2013.

On the basis of this pre-study, it became evident that the Finnish firms have founded around 30–40 subsidiaries in Belarus. The desk research and these interviews revealed that the first Finnish firms arrived in Belarus already as early as the 1990's, but the first major wave of Finnish firms took place in 2006. The entry intensified towards 2008. The global financial crisis of 2008, however, decelerated the internationalisation of the Finnish firms to Belarus, but already at the beginning of this decade the entry has re-gained its speed.

Although 30–40 Finnish companies have registered their unit in Belarus, the pre-study indicated that only one Finnish company, namely Olvi (a Finnish brewery), has started significant industrial production in the country. Here, it is worth noting that also smaller Finnish firms have discovered the business opportunities of Belarus. Another noteworthy point is the activities of several Finnish firms in the field of industrial chemicals. Thirdly, several family-owned Finnish firms have opened a subsidiary in Belarus.

I aimed at interviewing directors of 10 large Finnish companies operating in Belarus. Out of 14 companies approached, 10 firms agreed to participate in this research. A director of one of the approached companies (Algol Chemicals) was too busy to participate and three (Makron, Metalliset and NW Power Metso) never replied to my enquiry. Short company descriptions are given in Table 3. The companies are described in order of date of establishing their subsidiary in Belarus.

Table 3

A short company description of the sample

Name of company	Description
<i>Bang & Bonsomer</i>	The majority of Bang & Bonsomer is owned by the Hertell family. Bang & Bonsomer sells industrial chemicals. It opened a sales office in Belarus in the middle of the 1990's. The company has leased a warehouse in the country. Fifteen out of approximately 200 staff members of the Bang & Bonsomer Group work in Belarus
<i>Schetelig</i>	In 2006, Schetelig established a subsidiary called ChUP Schetelig Bel in Belarus. In addition to the company's traditional business with seeds, plants and growing accessories, Schetelig builds greenhouses and heating stations, cold storages and open-field irrigation systems. Schetelig's Belarusian subsidiary has some 40 employees
<i>Rautakesko (a part of the Kesko Group)</i>	In 2007, Rautakesko became Finland's first major corporation to enter the Belarus market, when its Lithuanian subsidiary Senukai acquired Lithuanian UAB Romas Holdingas, which owned OMA stores selling construction materials in Belarus. In the middle of 2013, around 10 OMA stores operated in Belarus. In the first half of 2013, the net sales of OMA were EUR 50 million, an increase of 30 per cent compared to the corresponding period a year earlier
<i>Law Firm Sorainen</i>	At the beginning of 2008, Law Firm Sorainen opened an office in Minsk. The office started from scratch, i.e. from "a kitchen of the Belarus partner", as the company website indicates. Nowadays, the Belarus office employs approximately 30 people
<i>Olvi</i>	At the end of 2008, Olvi acquired with approximately USD 16 million a 51-per-cent-stake of Lidskoe Pivo, a Belarusian brewery operating in the town of Lida in the Grodno region. Olvi has afterwards increased its stake to over 90 per cent. The company produces beer and non-alcoholic beverages. Some 800 employees work at the factory. In January-June 2013, the net sales of Lidskoe Pivo were some EUR 35 million, a growth of 30 per cent compared to the corresponding period a year earlier. The company produced approximately 50 million litres of beverages, out of which approximately 15 per cent went to exports. The main export markets are Russia, Ukraine and Lithuania

The end of table 3

Name of company	Description
<i>Tikkurila</i>	Tikkurila has exported decorative paints and industrial coatings to Belarus since the beginning of 2000. In August 2008, the company opened a sales office in Minsk. In addition to the sales office, Tikkurila has a warehouse in Belarus. Tikkurila has approximately 20–30 people working in Belarus
<i>Kiilto</i>	Kiilto is a Finnish family-owned company manufacturing chemical products. Kiilto produces adhesives and related products. Kiilto founded a sales office called Kiilto Klei in Belarus in 2009. Kiilto has a handful of people working in Belarus. In addition to the sales office, Kiilto possesses a warehouse in the country
<i>Nokian Tyres</i>	After exporting goods to Belarus for several years, Nokian Tyres decided to found a marketing company of automobile tyres in Belarus in 2010. A handful of people are working in this marketing company. Besides the marketing unit, Nokian Tyres has around 10 Vianor sales outlets operating on a franchising basis in Belarus
<i>Peikko BelRus</i>	The Peikko Group is a family-owned company specialising in construction materials. Since the year 2009, the company has exported to Belarus. In 2011, the group opened its sales office in the country. A handful of local employees works in the office. The company plans to start industrial production in Belarus in the future
<i>Lindström</i>	The company opened its subsidiary in Belarus in 2012. The company started in Belarus with its workwear services. The company had at the time of the interview less than 10 employees

10 companies interviewed represent over 90 per cent of the Finnish FDI in Belarus, and some of them have rather long experience in operating there. For example, Bang & Bonsomer is most likely the oldest Finnish firm operating in Belarus. The companies interviewed give sufficiently representative results concerning the Finnish firms operating in Belarus. While have concluded the aforementioned, one has to keep in mind the possible limitation that the Finnish views do not necessarily represent the perceptions of other Western firms operating in Belarus. On the other hand, it was encouraging to notice that the Finnish perceptions were almost identical to the views of German businesses operating in Belarus [13].

One should also note the fact that the business environment of Belarus changes constantly and naturally so do the perceptions on it. For instance, the Ukrainian crisis may have changed the opinions of foreign directors on the political and economic stability of Belarus as well. Therefore, it needs to be emphasised that the interviews were conducted during September–October 2013. Interviews lasted from 40 to 90 minutes and they were carried out via telephone. The interview guide was used in conducting the inter-

views and it was sent to the respondents prior to the interview so that they could prepare for the interview beforehand. The interview guide has been annexed in Appendix 1.

Mainly chief executive officers (CEOs), managing directors and directors in senior management positions participated in the interview. Therefore, the respondents' perceptions reflect well the official line of these companies (Table 4). On the other hand, the official line may have its shadow side, since some of the respondents hesitated to express an opinion on the political environment of Belarus. One may guess that some of the directors might have been afraid of revealing critical opinion on the Belarus leadership, which is able to influence considerably the activities of their companies in Belarus. In order not to create operational difficulties for the studied firms, the research results will be presented so that the response of any single company cannot be identified.

Table 4

Positions of interviewed persons, name of firm and interview date

Positions of interviewed person	Name of firm	Interview date
CEO	Peikko Group	13.09.2013
CEO	Olvi	23.09.2013
Project Director	Rautakesko	08.10.2013
Managing Director	Kiilto	10.10.2013
CEO	Bang & Bonsomer Group	10.10.2013
CEO	Schetelig Group	15.10.2013
CEO	Nokian Tyres	16.10.2013
Managing Partner	Law Firm Sorainen	16.10.2013
Managing Director	Tikkurila Belarus and Ukraine	17.10.2013
Senior Vice President — European and Asian subsidiaries	Lindström	22.10.2013

As this article does not aim at making a theoretical contribution but instead it aims at increasing understanding on the Belarus business environment, I have used a pragmatic research tool, i.e. the PEST analysis (see Appendix 1). The PEST analysis describes the macro environmental factors of an organisation. Political environment (P) aims at answering to what degree the government intervenes in the economy. Economic environment (E) deals with economic growth, interest rates and exchange rates among other economic factors, influencing how firms may develop in a given market. Sociocultural environment (S) describes social trends in an economy. And finally, technological environment (T) includes factors, having major impact on the technological development of a market, such as R&D, innovation and technological change. The PEST analysis has been extended by some scholars to include legal, environmental, demographic and regulatory factors. In this study, legal and regulatory factors have been analysed as a part of the political environment and demographic factors as a part of the sociocultural environment. The environmental (ecological) factors have not been given an emphasis in this research.

In addition to the PEST analysis, a SWOT analysis of these companies was conducted. Moreover, the respondents' prediction on the future development of their unit in Belarus was enquired. At the end of the interviews, the researcher collected the recommendations of the respondents to the Belarus Government and the Finnish business community. Due to the limited space, only the empirical results dealing the Belarus business environment are reported in this article.

4. A summary of empirical research results

4.1. *Political environment (P)*

The Finnish directors' answers indicate the non-progressive public image of the Belarus political system, which causes some Finnish firms not to actively advertise their Belarus operations abroad in order not to weaken the company's image in the West. As a whole, the Finnish firms considered that the political environment of Belarus is stable due to the authoritarian rule, but at the same time they acknowledged that highly-centralised political power creates unpredictability since regulations can change fast without a proper public debate. Some of the directors did not rule out even a major political shift. One Finnish director assumed that the political shift and a possible societal movement following the shift may not be the most obvious risk, but he believed that the most likely consequence of the political shift would be a temporary turbulence in the economy, for instance a temporary collapse of private consumption.

The Finnish directors consider that Belarus does not possess a foreign investor-friendly image yet, though the Belarus Government systematically aims at improving its image in the West. Some Finnish directors expressed that attitudes of the top leadership are generally more favourable towards the foreign firms than those of the bureaucrats and local companies. The reason for the difference in opinion may stem from the fact that foreign firms are seen as a source of economic reform at the top of the society, whereas they are seen as competitors by the local businesses. A couple of the Finnish directors indicated that the local business community sometimes uses bureaucrats to slow down the business development of foreign firms.

Some Finnish businessmen warned that the country's overwhelming dependence on Russia, energy deliveries in particular, may destabilise the Belarus economy, i.e. the Belarus-Russia relations can become a political risk for foreign firms operating in Belarus. The aforementioned conclusion applies to the EU-Belarus relations as well.

The Finnish directors consider that the Belarus regulatory environment is clear, though regulations change rapidly and sometimes in an unpredictable manner. However, it is widely considered among the Finnish businessmen that the Belarus administration works more effectively, more reliably and more predictably than that of its eastern neighbours.

The majority of the Finnish firms thought that bureaucrats in Belarus do not favour local firms or Russian corporations. Quite the opposite, the cur-

rent government policy seems to favour Western firms, since the Belarus Government aims at limiting the growing influence of the Russian corporations in the Belarus market. On the other hand, the Customs Union has strengthened the competitive position of the Russian firms, as some of the Finnish firms have already experienced. A number of Finnish firms have found it extremely difficult to provide their goods to the state-owned enterprises, which tend to favour domestically-produced goods on the request of the Belarus administration.

The Finnish directors indicated that some import duties are rather high compared to the countries inside the Customs Union. On the other hand, they saw that the operation of the Belarus Customs does not differ considerably from that of Russia, i.e. the customs works but delays are not unheard of. Some Finnish firms have encountered time-consuming procedures at the Belarus borders. Therefore, it is logical that some of the Finnish firms are eager to become a part of the system, which allows them to declare the goods at their own warehouse. It became evident in one Finnish firm that customs clearance at one's own warehouse is considered a feasible practice, but it requires a good reputation from the foreign company involved.

Some of the respondents saw that Belarus was an ideal base for their hub within the Customs Union, since Belarus offers a logistically ideal location between Western Europe and Moscow. Several Finnish directors saw that the Customs Union may open additional business opportunities for Finnish firms. For instance, it had already brought new clients for one Finnish firm in Kazakhstan. On the other hand, the Customs Union does not seem to function as well in practice as on paper. For instance, common certification does not always work properly.

None of the Finnish firms has encountered violations of immaterial property rights in Belarus, though such a malpractice is not unusual in the eastern neighbours of Belarus. The Finnish firms have not faced explicit restrictions directed at them either. However, some Finnish companies have faced indirect restrictions, as some Belarus state corporations have been blacklisted by the USA, and some European banks follow the US sanctions by not handling foreign payments of the blacklisted Belarus state corporations. As some of these Belarus companies are clients of the Finnish firms, also the Finnish business community has indirectly been affected by the US sanctions against Belarus.

4.2. Economic environment

The interviews suggested that the size of the Belarus market was considered optimal for the Finnish firms, as the market due to its smaller size is easier to manage and does not have large competitors with a privileged position. It became evident that the Baltic States and Russia have acted as a springboard for several Finnish companies to enter the Belarus market.

All in all, competition in Belarus is considered to be normal, although it is much less fierce than in several other post-Soviet countries, which have put more emphasis on privatisation and the attraction of foreign firms. As a

whole, Finnish firms regard the growth opportunities in Belarus as good. The purchasing power of the middle class in particular is expected to strengthen, though the purchasing power has deteriorated as a consequence of the 2011 financial crisis in Belarus.

Finnish firms fund their investments in Belarus mainly with their own revenues or through financial contributions from the Finnish parent company. Belarus banks are seldom used as a source of finance due to their higher interest rates and obscure ownership structures. Some of the Finnish companies have managed to negotiate funding schemes with international financial organisations.

The exchange rate risk of the Belarusian currency is acknowledged by Finnish firms. Some Finnish directors underlined the need to be alert all the time due to the considerable exchange rate risk of the Belarusian currency. Some of the companies have used their parent company, i.e. the hard currency-nominated deals, to avoid the exchange rate risk. Despite the obvious currency risk, some of the Finnish firms have not prepared in any way for a possible future devaluation of the Belarusian currency. Surprisingly, two Finnish directors predicted that the Belarusian currency will be linked with the Russian rouble.

The Finnish directors consider that the payment system of Belarus works well and payment discipline is high. Payments are frequently received in advance in Belarus. For instance, Russia is considered to be more risky in terms of non-receipt of payments. On the other hand, some Finnish managers foresee that payment discipline worsens in Belarus due to increasing competition, i.e. a Belarusian customer has more negotiating power to demand longer payment times due to a greater number of suppliers, and thus payment discipline may begin to deteriorate.

The respondents think that repatriation of profits from Belarus to Finland works properly but prepayments from Belarus to abroad do not always function adequately, which reduces foreign trade volumes. In addition, firms are forced to sell a part, 30 per cent, of their export revenues at the Belarusian banks, which is considered to slow down business development.

The empirical evidence reveals that the taxation burden is low and the taxation system of Belarus has not caused a major headache to Finnish firms, though the taxation procedures are time consuming. Misuse related to taxation inspections was not considered a problem.

As a whole, transportation in Belarus is not regarded as a special problem by the Finnish businessmen, although the logistical system is less developed compared to the Western system. The goods move slower on the Belarus roads than in the Nordic countries, but on the other hand, the road network is clearly better in Belarus than in its eastern neighbours. Finnish firms have been satisfied particularly with small private transport companies, whose services are more flexible than those of the large state companies.

It was considered by the majority of the respondents that the retail distribution network of Belarus is behind the Western countries, as only few nation-wide retail chains operate in the country. It is a bit surprising that the role of small shops and marketplace trading is still significant in Belarus. This is a clear sign of undeveloped retail trade system, stressing the future opportunities for Western retail firms.

The Finnish directors think that offices are easily available in Minsk and larger Belarusian cities. It is more difficult to find appropriate premises for industrial production. Finnish firms tend to prefer greenfield sites over brownfield ones, since the premises and the machinery of Soviet-era factories are outdated and their renovation and replacement costly. The warehouses are few and their prices are high.

Some of the respondents stressed the fact that subcontracting and outsourcing have developed rapidly during the past few years. Besides, it became as a positive surprise that Finnish firms had positive experiences in the operation of the Belarus courts, as Finnish companies have won their main cases.

Several directors expressed that only a little market information is available and public information is not always useful, and hence marketing is mainly based on the experience of its own marketing staff.

4.3. Sociocultural environment (S)

Experience of the Finnish firms suggests that finding key personnel takes time, but the good reputation of a foreign firm aids in the recruitment process. Even if some headhunting firms operate in Belarus, the management of the Belarus subsidiary often has to use hands-on methods to recruit personnel in the country.

The respondents think that the technological skills of the Belarusian personnel are generally very high but managerial skills are seen to be deficient. Finnish businessmen considered that there is a lack of local directors with international experience and foreign language skills, excluding the Russian language. Usually, the Finnish firms conduct their own in-house training programmes, though some of the firms have involved local universities in their personnel training.

The interviews showed that staff turnover is much higher in Belarus than in Finland, but it is not considered to be a major problem. Local workers' commitment to a foreign firm is better outside Minsk, where less work opportunities are available.

One Finnish manager saw that the full employment model of the country slows down the entrepreneurial development in the country. It is interesting to observe that some Finnish firms have abstained from a major de-staffing in order to maintain good relations with the authorities.

It became evident in the interviews that the salary gap between ordinary workers and directors is much wider in Belarus than in the Nordic countries. The salaries of the local key personnel may sometimes reach the same level of their Finnish colleagues, whereas the salaries of blue collar workers are still very low. Foreign firms usually pay slightly better salaries than their local counterparts. Some Finnish directors considered the salaries to be rising faster than productivity, decreasing the future profitability of the company. None of the companies confessed that they would be using shadow schemes in paying salaries. Salaries are usually checked several times a year due to the devaluation of the local currency.

Trade unions were not considered to be a problem by the respondents, though there are still some old-fashioned union regulations in place. In fact, the operations of the trade unions are more restrictive in Finland than in Belarus. For instance, the de-staffing of inadequate workforce is easier in Belarus than in Finland.

Most of the respondents saw that public opinion towards Finland, the Finnish firms and goods is generally favourable in Belarus. On the other hand, it was considered that the Finnish firms do not receive any major competitive advantage from being from Finland per se. The main advantage is the fact that Finland is considered to be a reliable partner with high-quality products. Some Finnish directors thought that the Lithuanian and German enterprises are better off than the Finnish firms due to closer political relations between Belarus and Lithuania/Germany.

Finnish companies do not consider corruption to be a general problem in conventional business, though they acknowledged the fact that it may exist in the strategic sectors of the economy and in public tenders¹. Crime has not been a problem for Finnish firms in Belarus, though grey imports may in some fields distort competition.

Some Finnish companies have created an effective system to minimise losses due to poaching of their staff. Very surprisingly, it was considered that losses due to staff poaching are lower in Belarus than in Finland. Finnish companies seem to use standardised methods for internal control, i.e. the normal business control methods in the West seemed to suffice in Belarus.

4.4. Technological environment (T)

As only one of the Finnish firms registered in Belarus has started significant industrial production in the country, the Finnish firms had less experience on the technological environment of Belarus. Due to the lack of experience on industrial production in Belarus, the perceptions of the Finnish directors should be treated with a caution.

Despite the aforementioned limitation, the Finnish directors summarised the Belarusian technological environment as follows. Technology transfer from Finland to Belarus works as the core of the technological base of the Finnish subsidiary in the Belarus. Also the ICT systems are frequently imported from Finland, though the Belarusian and Russian systems are in place as well. Internet works surprisingly well in Belarus.

Globally-recognised technological breakthrough innovations in Belarus are rare and Belarus does not have an image of a high-tech country, which has prevented some Finnish firms from building research and development activities in the country. Customs fees of imported technology are not regarded as a problem.

¹ Even if the Finnish directors consider that they have not faced corruption in Belarus, Transparency International (2013) ranks Belarus as the 123rd most corrupt country among the 176 countries studied. If we believe in the sincere answers of the Finnish directors, the contradiction could be explained by the fact that corruption is not widespread in Belarus but rather concentrated in higher levels of the society and certain business fields.

Some Finnish directors considered that the Belarus business environment is not developed enough to digest all the most modern management techniques of the Western companies. Therefore, some Finnish corporations have chosen a gradual strategy to import modern Western management techniques into the country.

Those Finnish companies that have conducted R&D co-operation with a Belarusian client considered that collaboration had deepened their business relationships and given an additional competitive advantage to them.

The summary of the empirical findings can be found in Table 5.

Table 5

A summary of main empirical findings

<p>Political (P)</p> <ul style="list-style-type: none"> * Centralised rule and the authoritarian political system have created stability, but the leadership change may create major instability. * The regulatory environment is clear but changes can be rapid and unpredictable. * The administration works properly, though more slowly than in the developed West. * Some deficiencies could be found in privatisation and public tenders. * Finnish firms were generally pleased with the ownership rights. * Finnish firms have not experienced immaterial property right violations in Belarus. * The strategic benefits of the Customs Union are obvious, but on the operational level the Customs Union still needs further improvement. * Political dispute between Russia and the EU can create additional problems for the Finnish firms in Belarus as well. * The US blacklist on some Belarusian state-owned enterprises has created indirect problems for some of the Finnish firms. 	<p>Economic (E)</p> <ul style="list-style-type: none"> * The Baltic States and Russia have offered a springboard for entering Belarus. * The growth opportunities in Belarus are good, though the purchasing power of the middle class has deteriorated after the 2011 financial crisis. * Belarus is a rather normal business environment, i.e. no major peculiarities related to competition, taxation, payment system, transportation and the legal system could be found. * It is easy to find office space but a problem emerges with industrial premises. * The Belarusian banks are seldom used as a source of finance. * Repatriation of profits to Finland is not a problem, but prepayments abroad are not working well. * Mandatory sales of a part of export revenues is a Belarusian peculiarity for the time being. * Exchange rate risk of the Belarusian currency is obvious, and hence the hidden dollarisation of the economy has already begun. * Subcontracting and outsourcing develop fast. * Reliable market information is scarce.
<p>Sociocultural (S)</p> <ul style="list-style-type: none"> * Recruitment of personnel is generally not a problem. * Technological skills of local staff are good but managerial and internationalisation skills need considerable upgrading. * Staff turnover is higher in Belarus than in the West, but it has not been a specific problem for Finnish firms. * Salary differences are notable between white collar and blue collar workers. * Trade unions do not present a problem, on the contrary, trade unions hinder progress more in Finland. * Finland has a good national image and its goods are regarded as high-quality and its firms as reliable partners. * Crime and corruption are not a specific problem. 	<p>Technological (T)</p> <ul style="list-style-type: none"> * Technology transfer from Finland to Belarus works as the core of the technological base of the Belarus subsidiary. * ICT systems are frequently imported from Finland, though the Belarusian and Russian ICT systems are also in use in Finnish firms. * Technological breakthrough innovations in Belarus are rare. * Belarus does not have an image of a high-tech country, which has prevented some Finnish firms from building R&D activities in the country. * Customs fees of imported technology are not a problem. * R&D cooperation with a Belarusian company gives an additional competitive advantage to a Finnish firm.

5. Conclusion

Western investments in Belarus are modest, which explains why Western researchers have not conducted any empirically-based scientific studies how a Western firm is able to cope in the Belarusian business environment. One enlightening business survey, however, could be found [13]. In this survey, some 50 German-owned enterprises operating in Belarus assess the Belarusian business environment. The empirical evidence of this German survey is to a great extent constant with the findings of this study.

This research used PEST analysis to assess the Belarusian business milieu with an empirical data collected from 10 leading Finnish firms operating in Belarus. When asked about their opinion on the political environment (P) on Belarus, the Finnish directors were rather cautious, since in the authoritarian regime the leadership may easily complicate the operations of a firm. This reservation should be taken in account, when evaluating the directors' views. As a whole, the Finnish company directors perceive that the Belarusian regulatory environment is clear. The administration works properly, though some deficiencies could be found in privatisation and public tenders. Finnish firms were generally pleased with the ownership rights and they have not immaterial property right violations in Belarus. On the other hand, the Belarus economy is considered to be too dependent on Russia (Russian energy), which may cause problems to macroeconomic governance of the country, and ultimately, it may create turbulence in the Belarusian market. The Finnish directors think that the strategic benefits of the Customs Union are obvious, but on the operational level the Customs Union still needs further improvement. Political dispute involving the EU and Russia may cause indirect problems to Belarus. As a whole, it seemed that the Sword of Damocles hangs above Belarus and its current leadership, since the current political stability may suddenly turn into societal turbulence. One Finnish director phrased the aforementioned as follows: *"I am concerned what will happen after the leadership change. Will the leadership change lead to a re-distribution of corporate ownership?"*

The Finnish directors consider the Belarusian economic environment (E) rather normal, as no major peculiarities related to competition, taxation, payment system, transportation and the legal system could be observed. Perhaps, the main peculiarity for an EU researcher is the mandatory sales of a part of the export revenues. Another special feature is the hidden dollarisation of the economy, which has re-started. This gives an indirect implication of a growing exchange rate risk. On the whole, the economic environment of Belarus seems to be more normal than generally believed in the West. One Finnish businessman concluded as follows: *"Belarus is like any other market on the globe with the exception that foreign firms do not want to attract publicity about their activities in the country due to the poor public image of Belarus."*

From the point of view of the country's sociocultural environment (S), there are certain labour union-related peculiarities, though one should not overstate their importance. The Finnish directors consider that employee turnover is higher in Belarus than in the West and salary differences are more notable between white collar and blue collar workers in Belarus than in

Finland but they have not generated major problems for Finnish firms. A lack of business skills and particularly those linked with the international business was obvious, but on the other hand, the technological skills of the Belarusian personnel were considered to be good. It is not a surprise that crime in a highly controlled authoritarian state was not seen as a problem. On the other hand, an absence of corruption is a bit surprising, since the closed systems usually tend to nurture corruption. Whatever the reality, it became clearly evident that Finnish directors perceive that the corruption situation in Belarus is much better than in its eastern neighbours.

What comes to the technological environment (T), it became evident that the technology transfer from Finland to Belarus works as the core of the technological base of the Belarus subsidiary. As Belarus does not have an image of a high-tech country, it has prevented some Finnish firms from building R&D activities in the country. Customs fees of imported technology have not been a problem. It became crystal clear that the technological environment of Belarus is not a reason, why a Western firm would invest in the country at the moment.

In order to get a more complete picture about the business environment of Belarus, I highly encourage Western researchers to conduct empirical studies dealing with the activities of foreign companies in Belarus. After all, Belarus may be a more normal business environment for a Western firm than the Western media reports on the political state of the country may lead us to think. The contemporary crisis in Ukraine forces Western academics to pay additional attention to Belarus as well.

References

1. Astley, W. G., Van de Ven, A. H. 1983, Central Perspectives and Debates in Organization Theory, *Administrative Science Quarterly*, no. 28, p. 245—273.
2. Aswathappa, K. 2009, *Essentials of Business Environment*, Himalaya Publishing House, Mumbai.
3. Belokon, M. 2014, *Belarus slide package for a foreign investor*, Pan-European Institute, University of Turku.
4. Cherunilam, F. 2009, *Business Environment*, Himalaya Publishing House, Mumbai.
5. Cherunilam, F. 2010, *Elements of Business Environment*, Himalaya Publishing House, Mumbai.
6. EBRD. *Belarus — Country assessments*, 2012, Transition Reports, available at: <http://www.ebrd.com/downloads/research/transition/assessments/belarus.pdf> (accessed 12.09.2014).
7. EIU, 2013, *Belarus, Country Report*, Economist Intelligence Unit, London.
8. Heikkilä, M. 2010, *Suomalaisinvestointien poliittis-hallinnolliset riskit Venäjällä, Ukrainassa ja Valko-Venäjällä*, Pan-European Institute, no. 1, University of Turku.
9. KPMG. *Investment in Belarus*, available at: <http://www.kpmg.com/BY/en/IssuesAndInsights/ArticlesPublications/Press-Releases/Documents/Investment%20in%20Belarus%20WEB.pdf> (accessed 12.09.2014).
10. Ministry of the Economy of the Republic of Belarus, 2013, Revera Consulting Group, *Doing Business in Belarus*, available at: http://www.economy.gov.by/dadvfiles/001713_783132_Doing_Business_ENG.pdf (accessed 12.08.2014).

11. Foreign direct investments, *National Bank of the Republic of Belarus*, available at: <http://www.nbrb.by/engl/statistics/ForeignDirectInvestments/> (accessed 22.09.2014).
12. Pearce, J. A., Robinson, R. B. 1994, *Strategic Management*, Chicago.
13. Opros “Delovoy klimat v Respublike Belarus 2013”, *RDWB*, 2013, Repräsentanz der Deutschen Wirtschaft in Belarus.
14. Sharma, V. 2008, *Business Environment: Concepts and techniques*, Book-Enclave, Jaipur.
15. *Belarus Investment Guide*, 2012, Sorainen, Priorbank and RZB Bank, available at: http://www.priorbank.by/download/info/BIG_2012-08-21-eng.pdf (accessed 14.03.2014).
16. Statistical Committee of Belarus. Statistical yearbook Republic of Belarus 2013. URL: http://www.belstat.gov.by/en/bgd/katalog-publikatsii/public_compilation/index_94/ (accessed 14.09.2014).
17. Statistical Committee of Belarus, 2014, *Statistical review of Belarus*, available at: http://www.belstat.gov.by/en/bgd/katalog-publikatsii/public_bulletin/index_102/ (accessed 14.09.2014).
18. Terpstra, V., Kenneth, D. Sorainen, Priorbank and RZB Bank, *The Cultural Environment of International Business*, South-Western Publishing C., Cincinnati.
19. *Transparency International: Corruption Perceptions*, 2012, available at: http://issuu.com/transparencyinternational/docs/cpi_2012_report?e=2496456/2010281 (accessed 14.09.2014).
20. UNCTAD: World Investment Report, 2014, *United Nations Conference on Trade and Development*, available at: http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf (accessed 14.09.2014).
21. Wetherley, P., Otter, D. 2008, *The business environment: themes and issues*, Oxford University Press, Oxford.
22. Worthington, I., Britton, C. 2009, The business environment, *Financial Times & Prentice Hall*, Harlow.
23. Wilk, P. 2012, *Belarus slide package for a foreign investor*, Pan-European Institute, University of Turku.
24. *World Bank: World Bank Group — Belarus Partnership: Country Program Snapshot*, available at: <http://www.worldbank.org/content/dam/Worldbank/document/Belarus-Snapshot.pdf> (accessed 12.08.2014).
25. *World Bank: Doing Business*, available at: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf> (accessed 12.08.2014).
26. Xu, L. C. 2011, The Effect of Business Environments on Development: Surveying New Firm-level Evidence, *The World Bank Research Observer*, no. 26, p. 310—340.
27. Yermeyeva, I. 2009, Russian investments in Belarus, *Pan-European Institute*, no. 13, University of Turku.
28. Zashev, P. 2006, Belarus as a business opportunity? *Pan-European Institute*, no. 3, University of Turku.

About the author

Prof Kari Liuhto, Director of the Pan-European Institute, School of Economics, University of Turku, Finland.

Email: Kari.Liuhto@utu.fi

*Appendix***Interview guide****1. How long have you operated in Belarus/with Belarus?****2. History and current state of your Belarus unit**

* main historical events

* main indicators (turnover, foreign sales, personnel, investments)

3. Your assessment of the Belarus business environment (PEST model)**Political (P)**

Leadership change and its impact on economic policy

Political unrest during this decade

Clarity and sustainability of ownership rights

(incl. land ownership)

Respect of intellectual property rights

Changes in foreign trade regulation

The EU — Belarus relations and its impact on foreign trade regulation

Impact of the Customs Union (EurAsian Union) on foreign trade regulation

Bureaucrats favour local firms

Restrictions concerning foreign firms

Access to public procurements/public tenders

Access to privatisation

Other — name?

Sociocultural (S)

Population decrease and ageing

Availability of skilled workers

Emigration of qualified labour force abroad

Availability of quality training services

Social mobility within the country

Public attitude (incl. media) towards foreign / Finnish firms

Role of trade unions

Consumption preferences

Ethnic issues (incl. discrimination)

Ethical issues (incl. corruption)

Changes in lifestyle trends

Other — name ?

Economic (E)

General economic development

(GDP plus your industry)

Development of purchasing power

Taxation

Equality of competition (role of Belarusian oligarchs, role of Russian firms)

Salary development

Availability of finance (incl. foreign loans)

Interest rate development

Exchange rate of Belarusian rouble

Inflation
Functioning of payment transactions
Functioning of distribution channels
Functioning of courts of law
Availability of quality legal services
Availability of quality market information
Availability of quality transport services
Availability of quality office and industrial premises
Access to the electricity grid
Other — name ?
Other — name?

Technological (T)

Availability of modern technology within the country
Customs fees of imported technology
Functioning of infrastructure (roads, railroads)
Functioning of the ICT network
Innovation potential
Availability of R&D funding
Other — name?

4. SWOT analysis of your Belarus unit

* current situation and development over time

5. Prediction of future development of your unit in Belarus until 2020

6. Messages to the Belarus Government and to the Finnish business community