

# TRANSFORMING INTERFIRM RELATIONSHIPS IN RESPONSE TO MARKET CHALLENGES (CASE OF RUSSIAN BAKERY INDUSTRY)

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## ABSTRACT

This research aims to investigate how economic situation transformation has led to formation of different types of interfirm relationships.

A qualitative in-depth case study has been conducted in order to analyze the nature and scale of changes in industry interfirm relationships. To identify key problems and specifics of the interaction between the market players the content analysis method was applied, which allowed to deeper investigate mainly important concepts for the industry and linkages between them.

As study results demonstrate, responding to new challenges firms reveal the new focus at customers as main stakeholders, influencing the mechanism and the form of relationships with partners, competitors, suppliers.

Current research on interfirm relationships in Russia is scarce and fragmentary, which gives limited opportunity to full analysis of existing situation. This paper is aimed to enrich this block of literature by providing a rich contextual understanding of interfirm relationships in Russian bakery industry.

**Keywords:** Interfirm relationships regulating mechanisms, Networks, B2B relationships, Competition, Customer orientation, Russia

Dynamic development of market conditions in Russia over the last decades has led to dramatic changes in the way the firms define the aims, form and maintain interfirm relationships. This shift was a strong motivation for the companies to develop new cooperation regulating mechanisms, enhance relational practices and improve competitiveness through building stronger links with partners.

The role of interfirm relationships in enhancing competitiveness of the firms and national economy has been highlighted in existing literature (Anderson et al., 1994; Achrol, 1997; Uzzi, 1997; Achrol, Kotler, 1999; Håkansson, Ford, 2002). In order to be successfully embedded in interfirm relationships or wider interfirm relationship networks and co-create value firms need to develop certain level of relationship orientation and relational capabilities (Ford et al., 2003; Möller, Törrönen, 2003; Webster, 1992; Dyer, Singh, 1998; Hitt, Borza, 2000; Jacob, 2006; Ma et al, 2006). Even more important is the issue of social embeddedness of companies in conditions of transforming economies, while not as many studies exist on this topic. Specifically, one of the BRIC economies, Russia seems to be avoided in the overall academic discussion and stays “enigma” (Economist, 2008) for both researchers and practitioners. Existing research on Russia can be described as fragmentary and capturing just some aspects of transformation process. Thus the studies of business relationships in Russia twenty years after the start of reforms have hardly been undertaken and investigated in-depth.

Studies on Russian economy and the role of marketing and business relationships in Russia can be grouped according to their timing and focus. The first studies had the focus on the most radical stage of the transition period (early 1990-s), (e.g. Golden et al., 1995; Puffer, McCarthy, 1993). These studies discuss the infant stage of the development of Russian economy, its marketing and related managerial aspects, their results can be questioned in the context of already 20-years history of transformation. It can be argued that the economy, the firms, their strategic orientations and capabilities, their approach to managing business relationships have undergone substantial revision and represent an urgent object for in-depth investigation. Thus “expectations for appropriate “market” type behaviours had therefore been raised – at the interpersonal level within the enterprise, as well as the institutional level external to it” (Agiros, 2004, p. 220). The first midterm results of transformation (Salmi, 2004; Agios, 2004, etc) were represented in later studies, and finally the latest studies focus on the most recent changes in Russian management and interfirm relationships practices (Smirnova et al, 2011; Belaya, Hanf, 2011; Puffer, McCarthy, 2011)

The later studies (e.g. Agios, 2004) were investigating internal transformation in the Russian economy, and among other acknowledging “fundamental difference” (Agiros, 2004, p. 221). The current culture of business relationships is combining newly acquired competences and rules, with the “part preference for network-based business relationship using old ties and informal activities” (Agiros, 2004, p. 220). Specifically, regulation of interfirm relationships is subject to changing regulation of the economy in the whole, changes in business environment and level of maturity of managerial mentality of Russian businesses. Thus despite the traditionally high role of interpersonal relations in Russian economy (Salmi, 2004; Jansson et al., 2007; Johanson, 2008), the ongoing economic transformation is leading to corresponding transformation in the principles, strategies and regulating mechanisms of business relationships. Thus “... the Russians, schooled and experiences in market-based techniques, assumptions and attitudes in business life, were capable of facilitating the achievement of a common understanding amongst business partners” (Agiros, 2004, p. 221).

Transformation processes in Russian economy have resulted in a dramatic transformation of relational practices, rules and norms of interfirm cooperation. New relationship building, instead of previously existing planning economy, has required substantial investments of time, resources and efforts, resulting in mutual learning and development of decentralized and mutually adjusted planning capabilities (Johanson, 2007). Besides the very fact that transition has supported building stronger managerial competences, existing research on Russian relationships and networks suggests switching from supplier to customer orientation (Farley, Deshpandé, 2005). Thus “supplier orientation” (Farley, Deshpandé, 2005, p.7) implies that customers had to bear all the risks related to poor quality and irregular deliveries. The risk-related behavior is commented in the paper via cultural values and high degree of risk aversion and uncertainty avoidance. Existing study results demonstrate positive impact of developed customer orientation on both firm relational capabilities (Smirnova et al, 2011a) and firm interfunctional collaboration, as well as firm performance (Smirnova et al, 2011b).

At the same time, there are hardly any studies looking in-depth to the transformation of interfirm relationships. Based on existing literature, a general assumption is made that there are accumulated competences, knowledge and development of new capabilities. An open question still is what are the choices of regulating mechanisms that the companies are making when deploying new plan matching and relationship building capabilities.

Regulation of interfirm relationships depends on the matching potential of the mode of interaction (Campbell, 1985). Thus, for example, the matching case of competitive vs. competitive mode will have transactional nature and will be regulated accordingly, while cooperative vs. cooperative mode would imply foundation for relational mechanisms.

The key research questions, addressed in this paper, are focused on the overall transformation processes in Russian market:

- How can the process of transformation in interfirm relationships approaches can be characterized over the past 20 years?
- What are the key driving forces for relational transformation?
- What are the directions of transforming relational practices?
- What are the dominating regulating mechanisms in the transformational period?

We are analyzing evolutionary transformation of interfirm relationships on example of one selected industry. Example of Russian bakery industry demonstrates transformation from the distribution-led system within the planned economy to market-oriented industry structure. This change was determined by dissolution of the planned economy and increase in industry rivalry. We investigate how resulting transformation has led to disappearance of vertically integrated structures and formation of interfirm alliances, their regulating mechanisms and principles of interfirm relationships.

## **REGULATING MECHANISMS IN RELATIONAL TRANSFORMATION**

Managing complex systems of interfirm relationships with partners via regulating mechanisms has been discussed in existing literature (Malone, 1987; Christopher, 1992; Heide, 1994; Lee, Ng, 1997; Stock, Greis, Kasarda, 1998; Romano, 2003; Danese, Romano, Vinelli, 2004; Zaefarian, Henneberg, Naudé, 2011; Ivens, Ott, 2008). Regulating mechanisms are thought to enforce coordination of the whole system of interfirm relationships. Danese et al, 2004 define regulating mechanism via synchronizing of activities of all involved sides (Danese, Romano, Vinelli, 2004). Discussion on the transaction costs of the interaction assumes co-existence of two regulating mechanisms – market and hierarchy (Coase, 1937). “This dichonomous view of markets and hierarchies sees firms as separate from markets or more

broadly, the larger societal context” (Powell, 1990, p. 297). When studying transaction costs Williamson (1979) has suggested that key transaction characteristics are uncertainty, frequency and investments, governance structures. Given long-term duration of the contract and its complexity more transaction specific governance structure may be suggested, thus relational contracting may be introduced. This logic represents an addition to market and hierarchy-based governance mechanisms, and pays attention to the relationship and co-created norms or social context around the contract. Relational, or network form of economic organization is suggested by Powell (1990), reflecting the view that “economic exchange is embedded in a particular social structural context” (Powell, 1990, p. 300). The network form of organization is based on the regulating mechanisms, considering multiple partners, focus at open-ended, mutual benefits, norm of reciprocity and reputational concerns as methods of conflict resolution (Powell, 1990). Bilateral governance (Williamson, 1975) concept was further developed in order to reflect the diversity of cooperation formats (Webster, 1991) and the features of regulating mechanisms (Heide, 1994).

The features of the bilateral exchange, required to plan further interaction have been discussed by Macneil (1980), leading to later discussion on the norms of exchange relationships as regulating mechanism. Further conceptualization of the norms, supporting relationship maintenance has been conceptualized by Heide (1994) and included role specification, nature of planning, nature of adjustments, monitoring procedures, incentive system and means of enforcement. Relational norms have been thought not only to regulate the interaction processes, but also support distributing the value and relational rents, co-created within the interfirm relationships (Dyer, Singh, Kale, 2008).

Existing research is highlighting a “fundamental shift in contracting under uncertainty ... from substantive to procedural agreements” (Grandori, 2010, p. 358). Relationship building has been closely correlated with managing high uncertainty. Existing studies on the role of business relationships in Russia highlight such factors as relational instability, refusal or low level of willingness to disclose relevant information, proneness to opportunism (Halinen, Salmi, 2001; Johanson 2007). The uncertainty factors have been even strongly mentioned by authors, analyzing cases of international cooperation. Specifically, several issues, preventing successful collaboration with Russian partners, can be mentioned, including low level of English proficiency, low preparedness for international communication, bureaucracy, and corruption (Koponen, 2009), lack of trust and commitment, low level of understanding of the mechanisms of value distribution among partners (Bonney et al., 2007). The differences, affecting success of collaboration, might be explained through the fact that companies were “formed and developed in very different environments, leading to very different organizational structures and communication patterns, and consequently different modes of cooperation” (Agiros, 2004, p.24). Nevertheless, similarly, these trends were resulting in low level of relational governance, jeopardizing relational rents for national market players as well.

It may be well implied that transformation period in Russian economy over the last twenty years has contributed to firms’ adjustment to changing uncertainty level, as well as developing relational regulating mechanisms instead of centralized planning system and “supplier oriented” value chains (Farley, Deshpandé, 2005).

## **METHODOLOGY**

Methodology of the study is complex and consists of two main stages: case study and content analysis. Case study approach has been selected as primary research method. After years of quantitative methods fascination in political, marketing, international relations, etc. science,

the last decade has seen a resurgence of qualitative methods (Ravenswood, 2011). The emphasis is made on tracing the cause-effect relationships and the processes themselves within a single case. Mostly important, thus, becomes the criterion for the case choice. There are several approaches to the dichotomy of quantitative and qualitative methods. The traditional approach of quantitative methods inevitably leads to simplification of complex phenomena. Qualitative methods avoid such a problem (Järvensivu, Törnroos, 2010). The method of case study involves a detailed analysis of a specific example to identify the typical properties and suppose they are common for the class of analyzed phenomenon (Ravenswood, 2011). Moreover, case study method has several useful characteristics, distinguishing them from quantitative research methods, such as: they provide an opportunity to answer the question of how or why something happened, they do not require control over behavioral events, and they are oriented to current events (Yin, 2002; Kyj, Kyj, 2010).

Yet, reliability and validity of the case study method still remains in doubt for some researchers (Riege, 2003). Nevertheless, current research shows that results, obtained in the case study can be extrapolated if the cases themselves are chosen scientifically correctly and in accordance with the purpose of the study (Riege, 2003).

To deeper analyze the market situation and interfirm relationships in the industry industry we conducted a content analysis. Due to needs of selected method, we conducted 11 interviews with industry experts from Saint – Petersburg and Moscow. All experts occupy executive positions either in industry leaders or in industrial organizations. Transcripts of all interviews were made and coding was done in accordance to the coding form, developed on the basis of the interviews.

Gerring (2007) argues that a diversity of approaches - experimental, observational, qualitative, quantitative, ethnographic - may be successfully integrated into case study research. Thus, although case study method is normally qualified as qualitative research method, it does except quantitative data analysis methods (Gering, 2007). Content analysis is a quantitative method of analyzing qualitative data (Harwood, Garry, 2003) and it gives a possibility to understand how important is one concept in contrary to another for the analyzed environment (Shapiro, Markoff, 1997). It also gives an opportunity to judge whether any correlation between those concepts exists (Krippendorff, 2004).

Selection of Russian bakery industry for analysis is based on some of its key features. Firstly, we need to highlight dynamic development of interfirm relationships in the industry. Moreover, both cooperation and competition are present in the market, which makes players search for the balance between them. Then, consumers preferences are changing rapidly, and customer orientation plays an important role in market success achievement. Thus, some big players would like to change their consumers perception by working with new partners, while new companies need to establish permanent relationships for their brands to gain awareness. Therefore, there is a need for new forms on interfirm relationships and new mechanisms for their regulation in this special industry.

The sample analyzed includes Saint – Petersburg and Moscow industry players, since these cities have higher business concentration and better established relationship structures. Both companies already having a wide relationship network and those potentially developing such relationships have been included in analysis.

Primary data was collected by means of two methods. Firstly, documents of the Saint Petersburg Bakery Industry Association (“Khlebopeki Sankt – Peterburga”) were analyzed. These included the minutes of regular industry members meetings, entrepreneurial codex of the

Association, etc. This type of analysis allowed identifying key problems and specifics of the interaction between the market players. Then, the interviews with the top management of the Association have been conducted to verify the findings and comment on the results of the analysis. Using this data we were able to describe existing market situation and study the evolution of interfirm relationships in the industry, which is presented in the results of our analysis.

The list of respondents is presented in Table 1. The interviews were held by telephone or at GSOM SPbSU. The length of the interview varied from 40 to 90 minutes. Transcript of the interview was conducted with the permission of the interviewee. Most of the respondents gave the permission to cite their answers. The Protocol for coding interviews was developed and all researchers who took part in the study were familiarized with it.

Table 1. List of respondents

Company	Position	Permission to transcript	Permission to cite
“Cheryomushki” Saint-Petersburg	Regional Director	No	no
“Cheryomushki” Moscow	Commercial Director	Yes	yes
“Khlebnii Dom” Saint - Petersburg	General Director	No	yes
“Khlebnii Dom” Moscow	Regional Manager	No	no
Industrial Organization in Saint – Petersburg “Associazia Khlebopekov Sankt – Peterburga”	Director	Yes	yes
Industrial Organization in Moscow “Gildia Pekarey”	The respondent agreed to take part in the interview in case of confidentiality	No	no
“Karavay” Saint - Peterburg	Production and distribution director	No	no
“Arnaut Saint – Petersburg”	General Director	Yes	yes
“Smolninskiy Khlebozavod” Saint - Petersburg	General Director	No	yes
“Sestroretskiy Khlebozavod” Saint - Petersburg	General Director	No	yes
“Nastyusha” Moscow	The respondent agreed to take part in the interview in case of confidentiality	No	no

All the materials from the interviews were then used for the content analysis. The methodology for the analysis was developed on the basis of (Krippendorff, 2004), which allows to conduct objective, systematic and replicable analysis (Engelen, Brettel, 2011).

In the content analysis we studied frequency of references to different concepts and correlation between them. The frequency of reference is presented in a component frequency table (Weber, 1990). To analyze the correlation between the concepts nonparametric Spearman correlation coefficient was calculated ( $r_s$ ) (Krippendorff, 2004). Such analysis allows not only to verify mostly important concepts in the industry but also causal linkages between them.

The content analysis showed a high level of agreement among the coders (cross-researcher reliability) (Krippendorff, 2004), which was on average 81% (from 71% to 96%). Such level of cross-researcher reliability corresponds to this type of research (Krippendorff, 2004). Then, all the disagreements were discussed and consensus has been reached on all controversial points.

## DATA ANALYSIS

### Market description

On the basis of our case study we analyzed current market situation and evolution of interfirm relationships development (Eisenhardt, 1989). Bakery market has always been limited territorially due to the product peculiarities. Since the beginning of the Soviet times till 1992 all bakeries were parts of territory industry communities. During the 1992-1993 they all were privatized as separate enterprises. Nevertheless, the markets are still regional and most of the competitors try to place their manufacturing as near as possible to their distribution channels. After privatization 20 separate bakeries and confectionary organizations were formed in Saint – Petersburg and twice as much in Moscow. None of those enterprises had a real brand identity, neither a brand name: large-scale bakeries were mainly distinguished numerically. However, some of them had specific product range and thus a loyal customer base who has linked there products with the name of its producer. The role of the supplier orientation in Russia during the Soviet time has been highlighted in the existing literature (Farley, Deshpande, 2005), while a turn to customer oriented practices started after the collapse of the Soviet union. Higher uncertainty and the need for adaptation and mutual planning has forced the firms to search for cooperation partners and adapt mutually adjusted planning approach (Johanson, 2007). But till now “despite the recent positive development in Russian market, the heritage of the centralized planning oriented command economy is still evident” and has impact on interfirm relationships along the demand chain (Lorentz, Ghauri, 2010, p. 243).

One of the main issues on the market is to load the capacities, as they are considerably exceeding existing demand. This capacities were built during the planning period of Soviet time without any consideration of the market rules; and now most of it stands idle, creating costs for its maintenance. This is one of the reasons, why interfirm relationships became that popular within the bakery industry in Saint – Petersburg market: some important legal agreements on quality and price were set up to avoid price wars; production (manufacturing of the company’s brand on their competitor’s facilities) contracts became popular and a number of Mergers and Acquisitions occurred. There are also some brand cooperation agreements, which are claimed to be very effective. Moscow market, however, is much more competitive: due to historical development interfirm relationships differ from those in Saint-Petersburg. Due to these regional reasons we are going to analyze interfirm relationships on both markets evaluating cooperation, competition and the balance between them.

#### *Saint – Petersburg market*

Three main competitors are present in the market (see Table 2), holding about 70% of the market share. The market thus is highly concentrated, but also competitive, since many players and the product line is quite standardized. During the wave of mergers most of the companies gathered under one corporate brand, but some of the smaller companies brands have still remained in the market (mostly, under agreements of brand-cooperation), while some have left the market.

Table 2. Saint – Petersburg bakery market

Group/ company	Main corporate brand	Main companies in the group	Brands	Market share
Fazer	Fazer	• Khlebniy Dom	• Khlebniy Dom	35%

		<ul style="list-style-type: none"> <li>• Murinskoye</li> <li>• Khlebozavod Vasileostrovskogo rayona</li> <li>• BKK Neva</li> </ul>	<ul style="list-style-type: none"> <li>• Khlebozavod Vasileostrovskogo rayona</li> </ul>	
Karavay	Karavay	<ul style="list-style-type: none"> <li>• Karavay</li> <li>• Zarya</li> <li>• Kushelevskiy khlebozavod</li> <li>• Nevskaya Sushka</li> <li>• Kronshtadskiy Khlebozavod</li> <li>• Rzhevka-khleb</li> </ul>	<ul style="list-style-type: none"> <li>• Karavay</li> <li>• Zarya</li> <li>• Nevskaya Sushka</li> </ul>	25%
Cheryomushki	No corporate brand	<ul style="list-style-type: none"> <li>• Pervoye khlebopekarnoye ob'edineniye <ul style="list-style-type: none"> <li>• Khleb (Darnitsa)</li> <li>• Pekar</li> </ul> </li> <li>• Khlebokombinat Lana</li> <li>• Sestroretskiy Khlebozavod</li> </ul>	Darnitsa Pekar Sestroretskiy Khlebozavod	10%
Petrokhleb	Petrokhleb	All bakeries from Leningradskaya Oblast region	Petrokhleb	7%
Khlebniiy zavod Arnaut	Arnaut	Khlebniiy zavod Arnaut	Arnaut	5%
Ochtinskoye	Ochtinskoye	Ochtinskoye	Ochtinskoye Aladushkin	8%
Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	
Bushe	Bushe	Bushe	Bushe	

The market is highly innovative as due to standardized products all companies are fighting for customer loyalty trying to produce new and uncommon items, but as technology abilities are similar, all innovations are quickly copied by competitors. Some companies have specific technologies. Most of those companies have subcontracting relationships with one of the leading groups and thus manufacture products for the leader's brand. It is also effective for smaller companies because they constantly need to load their capacities.

All producers face increasing retail chains power. One of the problems here is the private labels' competition. Although market situation is now changing (the adoption of the law on commercial activities decreased the retailers' privileges), retailers have more market power. Thereby, distributors force the producers to sell their products under private labels for the price lower than the costs - for those products to compete with the branded products of the manufacturers. Moreover, retailers use private label co-branding, putting the original product and producer name on the packaging, which, here is very unfavorable for the producer, because of intensified competition. Otherwise, when a manufacturer rejects such an offer, it is very simple for the retailer to terminate the relationships and find another contractor, eager to work under such conditions. Therefore, industrial cooperation helps bread producers to work against this type of unfair competition – thus, we obviously see that cooperation among competitors is possible on the market. Moreover, cooperation has significant importance in defining the market



situation – thus a crucial role is played by the Saint Petersburg Bakery Industry Association, founded in 1993. Its main goal is to represent industry companies' interests in court towards authorities and natural monopolies. Several intra-infrastructural projects were realized within the association: an insurance company, retirement fund, leasing company, accounting subcontractor, a subsidiary of an independent registrar etc. Then, however, with the development of financial markets they lost their relevancy and now the association deals mostly with the pricing and ethical behavior issues through implementing a coherent strategy mainly towards negligent contractors - distributors - practicing discrimination against the producers. Association is currently developing it's own trademark to have a sign of quality proof in the industry. By now, only small producers are interested in such cooperation with the industrial organization which corresponds to one of our problems and provides an interesting case for further analysis.

#### *Moscow market*

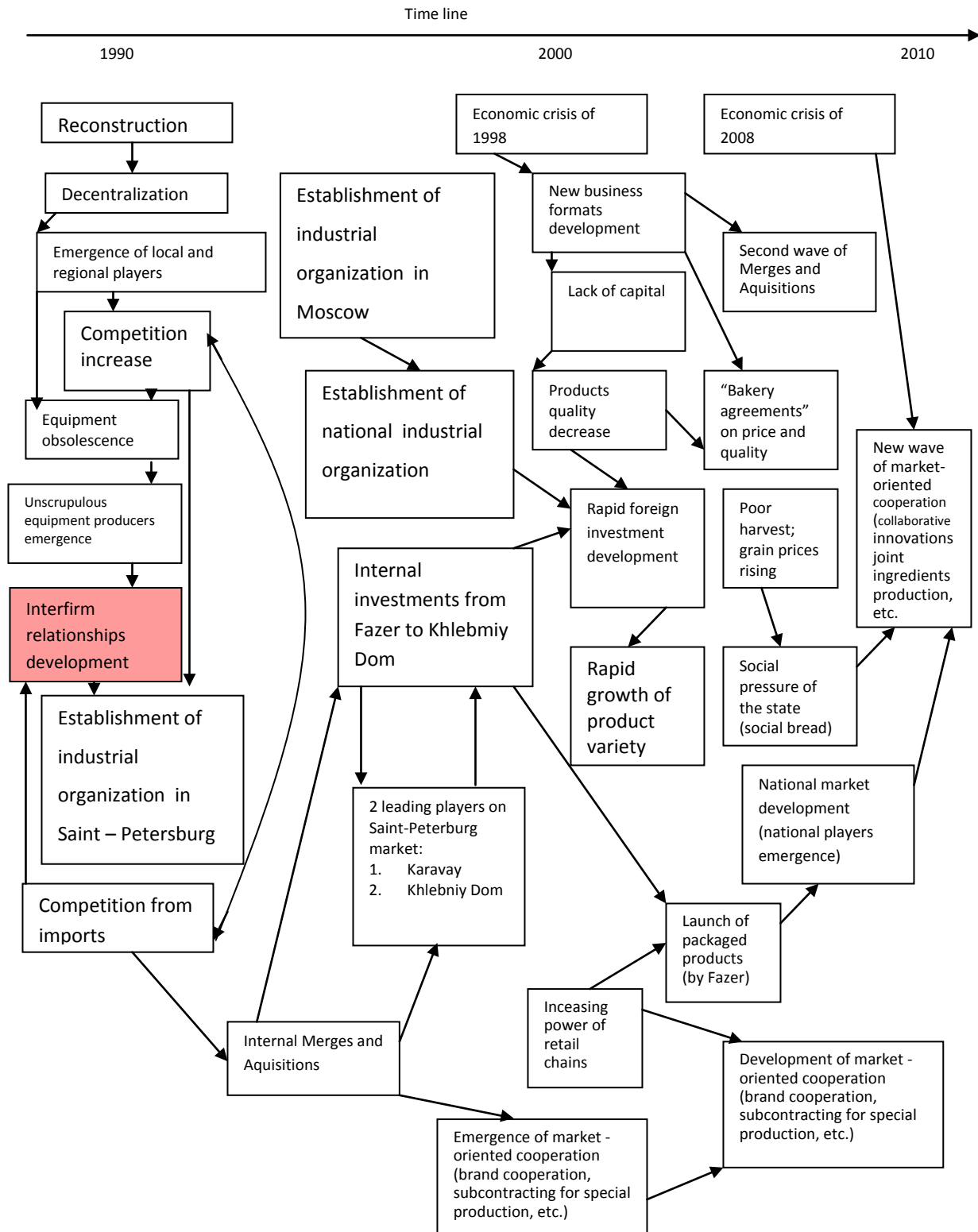
The Moscow bakery market is much more competitive than the Saint-Petersburg market, as a lot of the bakery products sold in Moscow is produced in other regions and regional manufacturers can hardly cope with this competition. Being stuck in price wars, they permanently fight for the governmental order. The product quality on this market is also worse than in Saint – Petersburg. Interfirm relationships are less developed in Moscow than in Saint-Petersburg because main players are vertically integrated structures, less interested in any forms of cooperation. Currently, there are 153 bakeries operating in the Moscow market, including 18 large-scale producers, holding more than 60%. Historically, most large-scale bakeries belong to the vertically integrated milling companies, the biggest of which is “Nastyusha”, holding about 35% of the market, which need to distribute the mill and so make the bakeries compete for the big government orders forcing them to save on quality as much as possible. In the Moscow market, producers compete for the big orders to load their capacity; in Saint – Petersburg they try to fight against governmental dumping strategies through cooperation.

Thus, to analyze, why Saint-Petersburg and Moscow markets are that different and how interfirm relationships historically developed on both markets, we also study the evolution of interfirm relationships in the bakery industry.

#### **Interfirm relationships evolution analysis**

Interfirm relationships in the industry were not developed until the Reconstruction in 1990s (Kyj, Kyj, 2010). Before the revolution, small factories prospered in the industry, with the maximum amount of 15 employees. After the revolution with the introduction of centralization production policy all small factories were destroyed. To provide people with bread and to support supply in case of war the policy "each region - a bakery" was applied, which involved creation of exceeding capacity, creating now additional complexity for the companies operating in the market. After the First World War centralization of production comes to an end destroying still existing small bakeries that do not meet the country's policies. After the Second World War the strategic role of bread strengthened, which, together with the centralization leads to the formation of regional bakery market. Thus, the market is represented by centralized production centers operating regionally due to special characteristics of the product. This regional orientation further led to the fact that after the reconstruction many local producers managed to survive, while large national players did not immediately win the market.

Figure 1. Evolution of interfirm relationships in Russian bakery industry



Analyzing Figure 1, we can obviously see that historically, interfirm relationships developed in 1990s after the Reconstruction happened. It can be explained by the fact that plan-oriented economy was changing, thus leaving less space for supply orientation. All players had to survive in the new economic conditions and, being competitors, try to cooperate to achieve several common goals.

Thus, we can argue that the main regulating mechanism of interfirm relationships in the industry is the economic orientation. Figure 1 shows that, while plan-oriented economy leads to supplier orientation, with the shift to market – oriented economy companies orientation also changes influencing existing forms of cooperation. In the 1990s, with unstable economic situation, main forms of interfirm relationships were used to either attract investments or to represent industry companies' interests in court towards authorities and natural monopolies. Further, with the growing power of consumers, and thus, retailers, industry players turned to more market - oriented cooperation forms, including brand cooperation and special products co-production.

Moreover, cooperation with foreign companies also had an impact on emergence of new forms of interfirm relationships. For example, the introduction of the packaged bakery goods (by Fazer together with Khlebniy Dom) made national competition possible by prolonging the expiration period of the product.

Also, we should notice that regulating forms of interfirm relationships, economic crisis also causes a new wave of cooperation development as companies face new challenges in all economical changes.

Finally, it is necessary to mention, that Saint – Petersburg and Moscow markets are still different in terms of cooperation - coopetition balance, which was caused by historical industry development. Interorganizational structure in Saint - Petersburg appeared earlier than in Moscow, thus cooperation in Moscow is still less developed. The cause of this variance can be as in different consumer preferences, as in vertically integrated structures, holding more than a half of the market and driving companies to supplier orientation.

But to deeper analyze the market situation and interfirm relationships in the bakery industry we conducted a content analysis.

#### Content analysis results

Due to our research methodology we analyzed the frequency of reference to all of our concepts (Weber, 1990). Thus, from results presented in Table 3 we could expect to suppose which concepts are more and which are less important for the industry.

Table 3. Frequency of references

Concept	Frequency of references
Increasing competition	100,00%
Need for innovations	90,91%
Consumer expectations growth	90,91%
Bread consumption decrease	90,91%
Competition in Moscow is higher then in Saint-Petersburg	90,91%
Cooperation exists in the industry	90,91%

Forms of cooperation are changing with time	90,91%
Subcontracting for standard goods production was actively used in plan-oriented economy	90,91%
Coopetition is actively used now	90,91%
Need for distribution system development in new economic circumstances	81,82%
Cooperation in industrial organization is important	81,82%
Ingredients production is used now (in market-oriented economy)	81,82%
Brand-cooperation is used now (in market-oriented economy)	81,82%
Lobbying is used now (in market-oriented economy)	81,82%
There is a wider variety of products in Saint-Petersburg, then in Moscow	72,73%
Government orders are more important in Moscow, then in Saint-Petersburg	72,73%
Joint product development is used now (in market-oriented economy)	72,73%
Government orders are still important	63,64%
Cooperation in the industry is possible with all stakeholders	54,55%
Consumption culture is different in Moscow and Saint-Petersburg	54,55%
Standard products satisfy consumers	45,45%
Price competition exists in the industry	27,27%
Change in economic situation had no impact on industry qualitative development	18,18%
All players are competitors, cooperation is impossible (pure competition exists)	18,18%

Such concept, as “Increasing competition” was mentioned by all respondents, thus being the most important assumption in the industry development. We can suppose that since economic situation changed to more market-oriented condition, competition has increased significantly, causing several qualitative changes in the industry and being significant for all players operating in the market. As this concept was mentioned by all respondents, it could not be considered in our correlation analysis (Harwood, Harry, 2003), thus we refer to it as to a basic market trend, predetermining the existence of several other concepts.

Other frequently used concepts (more then 81% of references) mostly prove our previously made predictions about relationships between industry players. Competition is again frequently mentioned in different circumstances. For example, the Commercial Director of “Cheryomushki” suggested: «We compete with everyone. We compete with other players, we compete with our suppliers, we compete with retail chains on Private Labels etc. On the other hand, we always try to find possibilities to cooperate on some businesses with our stakeholders.” Among the frequently used and, thus, important for the industry concepts we can also see cooperation and coopetition in different forms. It shows that cooperative agreements are extraordinary important nowadays. Furthermore, the presence of coopetition concepts proves our previous suggestion that cooperation is also possible with competitors, and not only in buyer-seller relationships.

Then, some frequently mentioned concepts describe the industry itself (Shapiro, Markogg, 1997). Such concepts, as “Growing consumer expectations”, “Bread consumption decrease”, “Need for distribution system development” etc. gives us an overview of contemporary challenges, faces by industry players. These challenges, we suppose, are the ones that predetermine changes in cooperation forms and involvement, also noticed by the respondents. Also, analyzing mostly frequent concepts, we observe a distinct difference between Saint-Petersburg and Moscow markets. Stronger competition and, thus, significance of governmental orders in Moscow cause lower product differentiation and, as a result, a higher

threat of price competition. On the other hand, the differences in consumer culture was a rarely mentioned concept, which gives us a possibility to suppose that the main reason for industrial differences in Moscow and Saint-Petersburg is not in consumers' preferences and an explanation for that phenomenon could be found in the history of cooperation development on both markets.

Finally, analyzing the less frequently mentioned concepts we observe the confirmation for the conclusions made on the basis of most frequently mentioned ones (Krippendorf, 2004). For example, we can withdraw that consumers are not satisfied with standard products anymore and, despite the growing competition, companies still realize the need to cooperate.

It is necessary to highlight that analyzing the frequency of references we can only judge whether the concept exists and how important it is (Donna et al., 2011). With this special type of analysis we cannot make any suggestions on how these concepts influence each other and guess if there is any kind of causal relationship among them (Harwood, Garry, 2003).

Thus, to study the linkages between the concepts we run the correlation analysis, as described in the methodology (Krippendorf, 2004). We look, though, only on significant ( $p \leq 0.05$ ) correlations with  $r > 0.5$ .

Most of the linkages seem to be logically justified. Such industry condition describing concepts, as "Consumer expectation growth" is positively correlated with new forms of cooperation: "Specific ingredients production" ( $r = 0,667$ ), "Brand cooperation" ( $r = 0,667$ ), and "Coopetition" ( $r = 1$ ). On the other hand, it is negatively correlated with such concept, as "Change in economic situation had no impact on industry qualitative development" ( $r = -0,667$ ). The "Need for distribution system development in new economic circumstances" negatively correlates with the "Government orders are still important" concept, which is also reasonable and gives proof for our proposition, that government orders are less important in new economic situation (especially, in Saint-Petersburg) and thus companies tend to cooperate in order to "force themselves in" big retail chains. We can also find proof for a suggestion that governmental orders importance can lessen the variety of products on the market by the positive correlation between «Joint product development is used now (in market-oriented economy)» and «Government orders are more important in Moscow, then in Saint-Petersburg» ( $r = 0,802$ ).

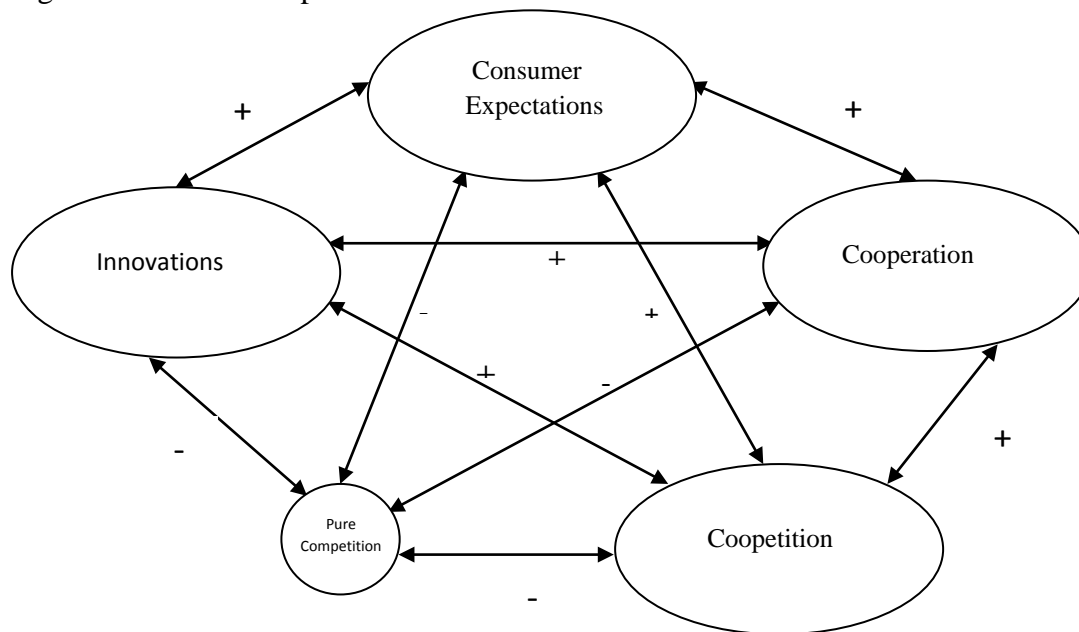
However, we suppose, that the most interesting results could be observed while studying those concepts, which were extremely frequent to mention and, at the same time, have the biggest amount and strength of linkages (Weber, 1990). We assumed that we could name them "Hubs" as they bind a big amount of our research concepts, being undoubtedly important for the whole industry. Thus, to graphically analyze the "Hub" concepts, we present Figure 2 below.

[illegible]

Accordingly, we have 5 “Hub” concepts for further analysis:

- An interesting observation is that all “Hub” concepts have linkages between each other. It can be graphically seen in Figure 3.

Figure 3. “Hub” concepts



Thereby, in Figure 3 we can see main “Hub” concepts of our research. All of them perform the biggest amount of linkages with other research concepts (Weber, 1990). What is interesting, nearly all of them are among those mostly referred to in the interviews. There is one exception, though: the only competition concept (which we call “pure competition”), being among rarely mentioned concepts, has, at the same time, the biggest amount of linkages. (Frequency of references is graphically shown by the size of the concept on Figure 3). This observation could mean that, although companies in the industry exist in the situation of increasing competition, most of the players realize that cooperation is a must to operate efficient and effective.

All of our “Hub” concepts are linked to each other either positively or negatively. We could notice, that such concepts as “Consumer expectations” and “Innovations” are positively linked not only to “Cooperation”, which would be rather obvious, but also to “Coopetition”, which is, in its turn, negatively linked to “Pure Competition” concept. This interdependence might also mean that companies realize unwillingness of strong competition in the market and try to cooperate on some businesses, being competitors on others. It is mostly seen in new specific product development areas, which need innovative approach, unaccustomed ingredients and out of the ordinary equipment, not affordable for one company working separately. Such dependence can be highlighted by the answers of our respondents:

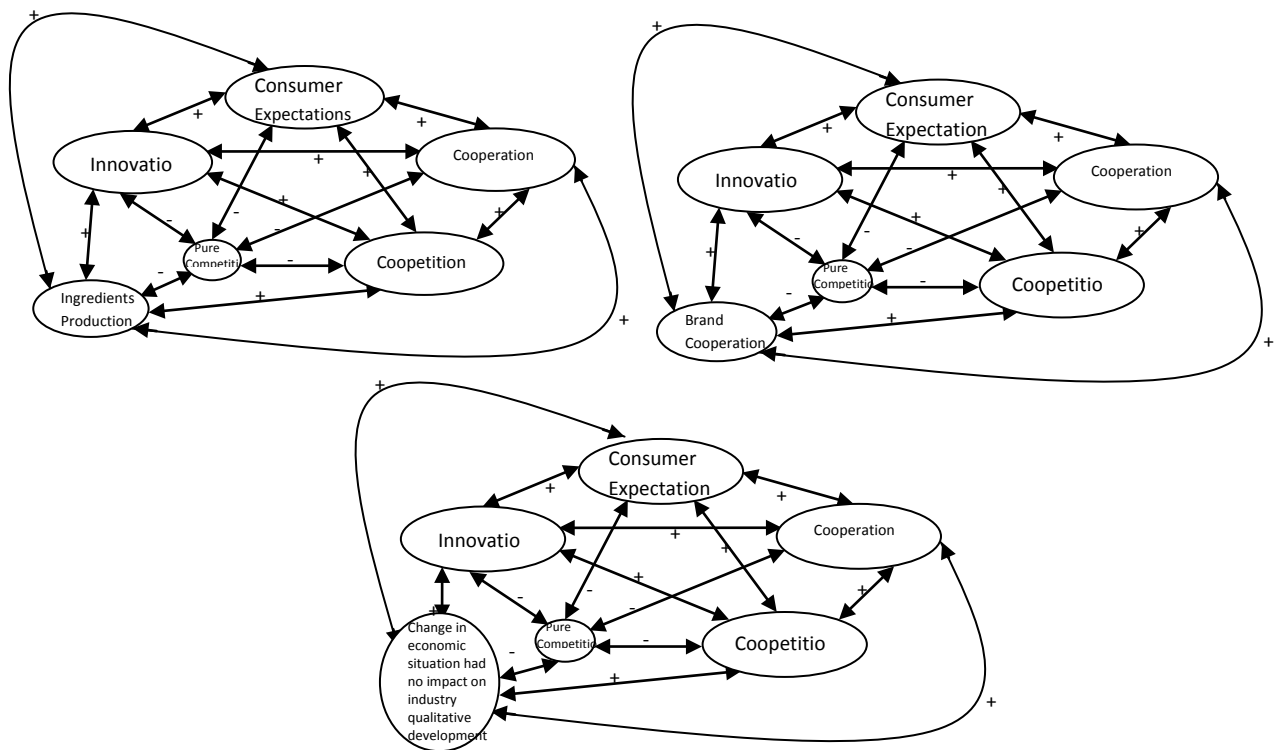
“It is normally working, when big company does not have any specific equipment, or.. or it doesn’t produce any niche products. Then they try to cooperate with smaller enterprises, specializing on some small range of innovative products. Or with ingredient suppliers, etc.” (Director of Saint – Petersburg industrial organization).

“Yes, we invested a lot into our ingredient supplier. We needed specific technology which did not exist in Russia. So, we developed it together.

And, yes, since then we have strong lasting relationships with our suppliers” (General Director of “Khlebniy Dom”).

To examine the relationship between main research concepts more precisely, in our research we also tried to investigate all linkages between “Hub” concepts and other phenomenon, studied in our analysis (Harwood, Garry, 2003). They are graphically visualized on Figure 4.

Figure 4. Other linkages of “Hub” concepts



As shown in the Figure 4, all “Hub” concepts are also linked to “Ingredient production”, “Brand Cooperation” and “Economic change” concept options. “Pure competition” is again linked to all of them negatively, except for “Change in economic situation had no impact on industry qualitative development”. It could mean, that for those companies, which did not experience any qualitative changes in the last 20 years, competition is much stronger, then for others. Operating with no cooperation, they suppose all players to be competitors. Thus, they do not launch innovative products to meet growing consumer expectations. On the other hand, considering the frequency of reference of the concept “Pure Competition” we should suppose that such companies are quite infrequent phenomenon.

“Ingredient production” and “Brand Cooperation” are similarly linked to all “Hub” concepts: positively to all of them except “Pure Competition”. We could interpret this phenomenon by arguing that nowadays brand cooperation and specific ingredients and finished goods co-production are the main forms of cooperation (or competition, in case of competitors),



which confirm our suggestions, proposed in the industry development map. This can be also highlighted by the respondents' answers.

“Brand cooperation is really important now, when we consider consumers. I mean, consumers want more and more, they want new innovative products, specific technologies, etc. On the other hand, they prefer their brands, they are quite loyal to what they use. That is why we use brand cooperation for our innovative products, which we produce with our partners” (Commercial director, Cheryomushki)

The fact, that those two concepts (brand cooperation and ingredients production) are negatively linked to pure competition again confirms that companies which did not experience qualitative change do not use new forms of cooperation, choosing the old ones, such as subcontracting to produce standardized products and load their capacities.

The concept “Change in economic situation had no impact on industry qualitative development” is negatively linked to all “Hub” concepts, except “Pure competition”, as was already mentioned above. Thus, we can also propose that those companies which did experience qualitative changes in the last 20 years tend to choose new forms of cooperation as well as competition when considering competitors.

Thereby, our content analysis results acknowledge main propositions we had after considering the evolution of interfirm relationships in the industry. For example, with the shift from plan-oriented economy to market-oriented economy existing forms of cooperation change and are nowadays mostly caused by consumer expectations. Thus, cooperation in the industry is now much more marketing – oriented and presented by such forms as brand cooperation and ingredients co-production.

## **CONCLUSION AND DISCUSSION**

We have analyzed the nature and forms of interfirm relationships in Russian bakery industry, their development issues and regulatory mechanisms. In some aspects, our research constraints echo the work of Farley et al. (2005), Johanson (2007), etc., enriching the existing limited stock of knowledge on current condition and context of Russian interfirm relationships.

Case studies, as our main research method gave us an opportunity to get deep insights of the Russian bakery industry evolution interfirm relationships development.

Analyzing the market, we identified, despite rising competition, cooperation plays an important role for the companies; moreover, they are constantly searching for the balance between cooperation and competition. Thus, we conclude, that cooperation among competitors is possible on the market.

The current business environment has led to the development of organizations where firms cooperate and compete simultaneously and in management literature the hybrid behavior comprising competition and cooperation has been named cooptition (Brandenburger, Nalebuff 1996). Although the concept of cooptition has gained some sustainable critique (Armstrong, Clark, 1997) a number of authors (Brandenburger, Nalebuff, 1996; Lado, Boyd, Hanlon, 1997; Gnyawali, Madhavan, 2001) have recently emphasized the increasing importance of cooptition for today's interfirm dynamics. Therefore, whilst, on one hand, we share the criticism of the initial approach, on the other, we underline that cooptition is clearly an underresearched topic, which is extremely important for Russian bakery industry.

Then, we also concluded that most of interfirm relationships forms in the market can be evaluated as an enforced response to the market challenges. Companies get involved in subcontracting agreements, collaborative innovation projects and other forms of interfirm relationships since they all face increasing competition and growing customer expectations simultaneously with exceeding capacity and highly standardized product line.

Interestingly, we found out that the current stage of interfirm relationships development is different in two Russian biggest cities: Moscow and Saint-Petersburg. Moscow market is much more competitive: due to historical development producers compete for the big orders to load their capacity; in Saint – Petersburg they try to fight against governmental dumping strategies through cooperation.

With regard to applied data analysis method (content analysis (Krippendorff, 2004)), we were able to make conclusions on the main issues in the industry concerning importance of the concept and the linkages between them.

Firstly, we analyzed the reflection of interfirm relationships via the most frequently concepts identification (Weber, 1990). Overall, our research yielded a perception of competition being the strongest trend influencing interfirm relationships. The concept of increasing competition was mentioned by all interviewees, with no regard to the company or city they are working in. We also discovered several influential market trends, such as need for innovations, consumer expectations growth, and brand consumption decrease, etc., which force companies to cooperate. Accordingly, we observed the co – existence of competition, cooperation and co-competition among industry players. The type of cooperation, though, has been instantly changing, including such forms as subcontracting, distribution system, ingredients production, brand cooperation, government relationships, Joint Product Development. We also confirmed our suggestion about industrial differences in Saint-Petersburg and Moscow. The main differences, mentioned by the respondents, were in the level of competition, product variety and consumption cultures. Nevertheless, the strongest influence on the difference was found in the nature and forms of cooperation

We also analyzed the main linkages between the concepts, identifying the key concepts been mentioned frequently and having strong links with other concepts (Harwood, Garry, 2003). Thus, we revealed five “Hub” concepts, one of which (pure competition) appeared to be an exception with strong linkages but low level of reference. Analysis of “Hub” linkages with other concepts showed that cooperation is mentioned much more frequently than competition or co-competition, being also linked to several forms of interfirm relationships, such as ingredients co-production and brand cooperation.

Despite the fact, that cooperation is mentioned more frequently and, thus, is a more important concept for the industry, its nature and form is constantly changing. We studied this development analyzing the evolution of the interfirm relationships in the industry.

Tracing the interfirm relationships development we conclude that the main regulating mechanism of interfirm relationships in the industry is the economic orientation. While plan-oriented economy leads to supplier orientation, with the shift to market – oriented economy companies orientation also changes influencing existing forms of cooperation. In the 1990s, with unstable economic situation, main forms of interfirm relationships were used to either attract investments or to represent industry companies’ interests in court towards authorities and natural monopolies. Further, with the growing power of consumers, and thus, retailers, industry players turned to more market - oriented cooperation forms, including brand cooperation and special products co-production.

Then, it is necessary to mention, that Saint – Petersburg and Moscow markets are still different in terms of cooperation - coopetition balance, which was caused by historical industry development.

Finally, recent studies of interfirm marketing relationships suggest a concept of “plural governance” in which the buyers purchase components from independent suppliers and also make similar components internally (Heide, 1994). Our research, thus, suggests that the plural governance leads to coopetitive relationships between the industry players as they not only compete but also there is a possibility of cooperation between them in the future. Thus, we can conclude that interfirm relationships in the industry are mainly regulated both by economic situation (plan – oriented vs. market – oriented economy) and cooperation – competition balance, which is denoted by the term “coopetition”.

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