

Competitive capabilities in Russian industrial networks

(A Longitudinal Perspective on a Case Study)

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Purpose of the paper and relevant literature

Despite increasing attention to the role of interfirm cooperation in emergent economies, few studies have explicitly distinguished the specific capabilities which are necessary to work in conditions of evolving business and social ties. Drawing on the resources-based view of the firm, institutional theories and the IMP perspective, this study aims to investigate the role of the business context in building and managing industrial networks in Russia. In recent years, Russian companies are becoming the fastest growing in Europe and highly influential on global markets. Yet, the business environment in Russia is characterized by increasingly competitive pressures caused by both rapid institutional changes and demanding business partners and customers. This is particularly evident in Russian industrial networks due to high degree of interdependency of network partners and their contribution to the continuous ongoing production system. In such circumstances, interfirm arrangements allow companies to cope with environmental challenges and evolving institutional frameworks. On the other hand, interaction and cooperation enable companies to develop competitive advantage only if partners collaborate proactively and develop collaborative capabilities. In addition, new capabilities are developed and used in collaborative arrangements.

Research method

A longitudinal case study based on an industrial network developed by a medium size company Control Drive, a supplier of industrial equipment from Yekaterinburg, Russia. Established in 1995, nowadays the company has a wide network of customers and partners both within Russia and abroad. The company continuously develops new services for its

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customers via an ongoing collaboration within business networks. On the other hand, reliability, flexibility, agility and customer orientation are the characteristics which enabled the company to win more business by becoming an exclusive regional dealer of National and International industrial companies. This study is investigating the evolution of an industrial network and capabilities which were developed in this network. The data was gathered via several rounds of interviews both with managers and staff of Control drive and their main customers and business partners.

Research findings

The findings indicate that in order to cope with the challenges of ongoing changes and maintain existing and evolving business relationships, the company is continuously developing new capabilities via differentiation and uniqueness of its products. The study further demonstrates that businesses operating in Russia should be cautious in their use of certain capabilities and adapt their capabilities to rapidly changing institutional and market environments.

Contribution

The study's theoretical contribution is threefold: first, it contributes into the literature on the evolution of industrial networks and cooperative strategies in emergent economies, second, it contributes into the strategic management literature on firms' capabilities in conditions of rapid institutional changes and, finally, it adds to the understanding of new business practices and forms of cooperation in emergent economies.

Key words: capabilities and capability development, institutional changes, managerial ties, Russia.

Introduction

Despite increasing attention to the role of interfirm cooperation in emergent economies, few studies have explicitly distinguished the specific capabilities which are necessary to work in conditions of evolving business and social ties. The extant studies on Russia's transformation (Puffer and McCarthy, 2011; Mattsson and Salmi, 2013) towards a market economy suggest that the formal institutions supporting a market economy in Russia remain weak and the business and market exchange are driven by informal personal networks. This is aligned with general market characteristics of emergent economies where competitive advantage is built on resources protected internally via new business models, organisational capabilities, process innovation, and even the ability to manage in the challenging and changing institutional environment of developing countries (Cuervo-Cazurra, 2012).

Drawing on the resources-based view of the firm, institutional theories and the IMP perspective, this study aims to investigate the role of the business context in building and managing industrial networks in Russia. The present paper argues that successful performance of firms in emergent economies relies on their ability to develop new

organisational capabilities while operating in conditions of evolving business network. Firms' ability to learn from other network actors enables them to develop new organisational capabilities which, in turn, lead to new business development and network expansion.

In recent years, Russian companies are becoming the fastest growing in Europe and highly influential on global markets. Yet, the business environment in Russia is characterized by increasingly competitive pressures caused by both rapid institutional changes and demanding business partners and customers. This is particularly evident in Russian industrial networks due to high degree of interdependency of network partners and their contribution to the continuous ongoing production system. In such circumstances, interfirm arrangements allow companies to cope with environmental challenges and evolving institutional frameworks. On the other hand, interaction and cooperation enable companies to develop competitive advantage only if partners collaborate proactively and develop collaborative capabilities. In addition, new capabilities are developed and used in collaborative arrangements.

A longitudinal case study based on an industrial network developed by a medium size company Drive, a supplier of industrial equipment from Yekaterinburg, Russia. Established in 1995, nowadays the company has a wide network of customers and partners both within Russia and abroad. The company continuously develops new services for its customers via an ongoing collaboration within business networks. On the other hand, reliability, flexibility, agility and customer orientation are the characteristics which enabled the company to win more business by becoming an exclusive regional dealer of National and International industrial companies. This study is investigating the evolution of an industrial network and capabilities which were developed in this network. The data was gathered via several rounds of interviews both with managers and staff of Drive and their main customers and business partners.

The Ural federal region of Russia represents an interesting context for the empirical study for a number of reasons. First, as opposite to companies and industries located in central regions of Russia in a close proximity to Moscow and St Petersburg, this region was not studied by international researchers. Second, while the region counts 10.6% of the territory and 8.7% of the population of the Russian Federation (Goskomstat, 2012), it contributes significantly into the Russian GDP; for example, in 2010, the region produced 14% of the Russian GDP and 20% of the Russian industrial production, and its GDP per a person was 1.6 higher than the average in Russia. The Urals Federal region has about 18 % of the Russian Federation basic assets, provides more than 10 % of the all-Russian retail trade turnover, fulfills 13% of the gross volume in constructions, gets more than 16 % of the whole investments into the basic capital, provides more than 21 % of the gross financial earnings into the budget system of the country, and about 35 % of the payments into the federal budget, more than a half of the gross Russian export with an allowance of hydrocarbons export, extracted in this region. The Urals region takes up the stable leading position in the country (being ranked second or third among the 81 federal regions of the Russian Federation) based on the following indicators: gross regional product volume, industry production, basic assets, retail trade turnover, capital forming investments and financial earnings into the budget system of the country. Third, the Ural region is a very attractive market place for international companies due to its rich natural resources and

presence internationally competitive companies in the oil and gas sector which produce more than 90% of gas, 65- 67% of oil and 40—45% of steel produced in Russia. Currently, the region counts 7% of the total FDI into the economy of the Russian Federation following the leading Central (Moscow) and North-West (St Petersburg) economic regions. Fourth, the region has the best position in Russia in terms of technical and engineering qualifications (28%); more than 200 large companies and more than 2 thousand of SMS companies of the region work in Research & Development sector, servicing the needs of industrial development and technical innovations.

For a number of reasons, the Russian hydraulic industry represents an interesting context for the empirical study. First, Russian industrial networks are significantly less studied by international business research compared to other emergent economies, such as China and India. Second, Russian industries demonstrate a high speed of growth which requires companies and their managers to develop and implement strategies much faster than in the other parts of the world. Third, the cooperative arrangements in Russia today show an interesting field of emergent cooperative forms of new markets players, including international companies, and also relationships based on “old ties”. Fourth, the specific conditions of the hydraulic industry require and co-creation of products and their adaptation of products to the local conditions also creates an interesting context for investigating interfirm collaboration as an important mean for value creation.

The paper starts by developing a conceptual framework based on the literature review, it then discusses the methodology of the study and introduces the study context. Then we analyse the case during the three distinctive chronological periods. The paper is concluded by the discussion of theoretical contribution, managerial implications and venues for future research.

Theoretical background and conceptual framework

New theory paradigms in emergent economies

The resource-based view (RBV) sparked by Penrose (1959) and further developed by Amit and Schoemaker (1993) Barney (1986 and 1991), Grant (1991), Makadok (2001)), Teece, Pisano, and Shuen (1997) and Wernerfelt (1984) advocates that specific resources and capabilities of firms used for creation of products that satisfy customer needs lead to a competitive advantage over competitors. While resources are defined by Grant (1991) as tangible and intangible assets, such as fixed assets, information, brand, technology, and human capital, which firms use as inputs into production process for conversion into products or services, a capability was defined by Makadok (2001:389) as “ a special type of resource – specifically an organisationally embedded non-transferrable, firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm”.

The RBV view extended to the knowledge-based view introduced by Nonaka (1994) who pointed at the role of firms’ knowledge in competition. Knowledge is viewed as a resource which articulates the value of all other resources. While many researchers focussed on

various ways of knowledge-seeking and knowledge –sharing actions, in context of emergent economies, retrieving knowledge from the location is recognised as critical organisational capability for firms operating in such context (Zaheer and Nachum, 2011; Alcácer and Chung, 2011).

While the resources-based view and its extension – the knowledge-based view – represent the strategic management perspective (e.g. Oliver, 1991) which focusses on firm's deliberate strategies used by firm's manager to create advantage, the institutional perspective (DiMaggio and Powel, 1983; Scott, 1995) addresses institutional forces which represent constrains and constitutive of organisational life. Some studies combined RBV and institutional theories (Lu et. Al., 2010; Oliver, 1997) and argued that institutional factors significantly impact a firm's choice of resources and strategies (Lu et. al., 2010; Peng, 2003). For example, Oliver (1997) introduced the concept of institutional capital defined as the unique resource of the firm that is embedded in its institutional environment. Examples of institutional capital include “management emphasis on resource innovation, interfirm knowledge sharing, training programs and information technology systems that is an important institutional actor which controls significant resources (Lu et. al., 2010; Li and Zhang, 2007; Peng, 2003). Institutions supporting markets in emergent economies are either underdeveloped or absent (Drummond, 2012; Khanna and Palepu, 1997). Institutional challenges in developing countries includes institutional voids such as lack of legal protection for intellectual property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, as well as informal institutional hazards such as public corruption and taxation evasion (Peng, 2003; Witt and Lewin, 2007).

Recent studies explore the notions of ‘institutional entrepreneurship’ and ‘institutional work’ (Battilana, Leca, and Boxenbaum, 2009;Hitt et. Al., 2001; Lawrence and Suddaby, 2006) and try to balance the two later perspectives by arguing that firms can respond strategically to institutional pressures. Further, institutional entrepreneurship attempts to move the focus of theory building away from the constrains under which firms operate towards the development of a ‘theory of action’ (Battilana et. al., 2009: 66) that “can explain how these constrains are overcome” (Pant and Ramachandran, 2012: 227) by the combination of advantages from the firm resources with the resources of others (Drummond, 2012; Mayhok and Keyhani, 2012).

In the context of emergent economies, as argued by Khanna and Palepu (2010), the advantage created by resources is more challenging to sustain due to underdeveloped institutions. This explains companies' determination to use their internal resources and capabilities, including secrecy, casual ambiguity, new business models and process innovations, to create advantage as pointed Cuervo-Cazurra (2012) in the context of developing country multinational companies (DMNC). This author clarified further by stating that “some of these advantages may even be the ability to manage in the challenging and changing institutional environment of developing countries”(Cuervo-Cazurra, 2012:161),

following Cuervo-Cazurra and Genc (2008) and del Sol and Kogan (2007). This is aligned with the observation, that DMNCs possess “very different advantages relative to those possessed by production, low cost value-creation processes, fast follower capabilities, routines of improvisation, and resilience in challenging institutional environments” (Cuervo-Cazurra and Genc, 2008; Chittor et al., 2009; Luo and Tung, 2007; Mathews, 2006; Ramaturti, 2009). Also, these arguments were made in the context of DMNC, in this study we assume these advantages as being possessed by any well-performing focal firms in the developing countries, as argued by Yudanov (2009). This analysis led us to the research question one: what capabilities do firms develop in response to the institutional changes in emergent economies? How do firms develop institutional capital?

When looking at the context of emergent economies, researchers acknowledge that changes occur at a remarkable speed, much faster than in developed economies (Drummond, 2012). The literature shows that “the degree of fit of the firm’s response to the external challenges impacts their subsequent performance” (de la Torre and Chacar, 2012: 9). High speed of changes in emergent economies challenge firms to develop and implement strategies in a more agile way than in developed economies. The capabilities to recognise change, learn from the environment and adequately respond to these changes are viewed as crucial in such environment (de la Torre and Chacar, 2012). In this study we apply the resources-based view to the perspective of Industrial Marketing Purchasing (IMP) Group in order to explore how ‘competitive catch-up through learning and capability upgrading’ (Mayhok and Keyhani, 2012) has been realised in a continuously evolving strategic network. This analysis led us to the research question two: how the managerial ability to recognise the market change influences the ability of firms to develop new capabilities?

Competition in networks

Recent developments in the field of strategy acknowledge that the resources and capabilities of a firm reside outside the firm’s boundary (Gulati, 1999; Gulati et al., 2000; Lee, 2007). Furthermore, the IMP perspective in exploring business markets acknowledged that many of the important resources available to the firm are belong to other firms and be only be ‘controlled’ through the medium of interactive relationships and networks (Baraldi et al., 2007; Ford et al., 2002; Ford, et al., 2003; Ford and Håkanson, 2006). Araujo, Dubois, Gaddle observed that “a firm’s resources are partially controlled by the demands and requirements of counterparts, while ‘external resources’, owned by counterparts, are partially controlled by the firm” (1999, cited in Baraldi et al., 2007, p. 880). As a consequence, firms can only partially control its own resources and cannot control networks as “networks are only weakly manageable and no single ‘hub firm’ can provide direction or control to any network” (Ritter, Wilkinson, & Johnston, 2004). In fact, the IMP approach denies the strict distinction between “firm” and “environment”, rather, this approach assumes that firms create value at the level of interorganisational networks. While the

mutual work of firms results in a network, the strategic acting within the network is a major factor in network evolution and transformation. Indeed, 'network resources' can be obtained through participation in interfirm networks which produce informational advantages (Gulati, 1999). Such resources influence a firm's strategic behaviour by altering opportunities and (Lee, 2007), thus, the firm's "external" factors over time influence its "internal" factors. Moreover, in today's challenging market environment, no single firm can implement complex innovations or novel product offerings alone because of the dispersion of the knowledge and technological resources (Möller and Svahn, 2003). To overcome this complexity and interrelatedness, firms look for new opportunities of knowledge transfer and the collaborative creation of new knowledge and innovations through vertical and horizontal networking (Håkanson and Snehota, 1995; Kogut and Zander, 1997; Powel et al., 1996; Teece et al., 1997; Teece, 2000). There is solid evidence in the literature that networks of firms producing complementary products or services, collaborating with competitors as well as with customers along the value chain, are able to provide its customers with improved value of products and services (Frils et al., 2003; Ford et al., 2002). Specialisation in the value-creating activities, flexibility, interdependency and innovations are among collective benefits which networks offer to firms.

Changes in network

The previous research acknowledged high complexity and dynamism of emergent markets which challenge established competition rules and lead to "collapsing capabilities" (Atuahenete-Gima, 2006: 360). In Russia, new market conditions require firms to "adopt to the newly formed business environment , while developing new internal capabilities at the same time" (Smirnova et. al., 2011: 55) . A number of studies have focussed on the challenges of the Russian business environment and business culture and observed strong evidences of the centralized planned economy (Lorentz and Ghauri, 2010; Puffer and McCarthy, 2011) and inefficient and opportunistic business practices (Jansson et. al., 2007; Kouchtsh and Afanasiev, 2001; Salmi, 1996). Overcoming such obstacles can be achieved by individual firms and their business partners, in particular, when interfirm interactions are supported and based on the interpersonal collaboration (Smirnova et. al., 2011). Moreover, "interpersonal networks are important in uncertain and unstable economic environments, as interpersonal trust mitigates risks and reduces the influence of turbulent macro-environmental changes" (Butler and Purchase, 2008: 531).

Despite strict adherence to interpersonal ties in Russian business, in the recent years Russian companies move away from non-market strategies dominated at the early stages of market transformation and build sustainable interfirm networks based on mutual interests of business development and value creation. Increased competition in global markets in recent years has led to the rise of various forms of partnering and interfirm networks (Gulati, 2007; Möller and Svahn, 2003). The number of networks in which firms are involved is growing continuously: in addition to traditional supplier-buyer relationships, firms

collaborate within distribution channels, and through brand networks, technological innovation and product development networks; firms also cooperate with their competitors to establish industry standards (Ford et al., 2003; Möller and Halinen, 1999; Möller and Rajala, 2007). The network perspective suggests that members are embedded within networks of interconnected relationships that provide opportunities for and constraints on their actions (Möller and Rajala, 2007).

Many authors representing the RBV view argue that large firms proactively create, adapt and control a specific network structure (Möller et. al., 2005, Dyer and Singh, 1998, Rowley et al, 2000). This is consistent with the arguments of Amit and Zott (2001), following Gulati et al. (2000), that strategic networks represent stable interorganisational nets that are strategically crucial to participating organisations. Interestingly, such an understanding of strategic networks as intentionally created collaborative forms distinguishes them from evolutionary networks. More specifically, Lorenzoni and Lipparini (1999) argue that the previous researchers considered networks as a given context, rather than a structure that can be deliberately designed by firms. This analysis led us to the research questions three: how does the evolution of the strategic network impact the firm's resources and capabilities?

The literature review above allowed us to develop the following conceptual framework of our study.

INSERT Figure 1 about here.

We recognise institutional changes and constraints which they pose to firms, especially, at the early stage of the business development, and provide a more stable environment in recent years. These constraints require from firms strategic actions to overcome challenges and identify opportunities. Firm's internal resources rather than external opportunities are used to develop these strategic actions. Resources, however, are only partially controlled by firms; rather they reside outside formal boundaries of the firm. As the network of a firm's business partners and clients is evolving, so are new resources and capabilities are developing by a firm. On the other hand, new resources and capabilities advance entrepreneurial activities and lead to new business development and, further development of the business network.

Methodology

This research question was investigated using case study methodology (Yin, 2009). The case study is the most appropriate research method if research is looking for answers "how" or "why" some social phenomenon works and explores contemporary events. Case study is particularly preferred when the researcher does not have an ability to control behavioural events. Single case is used when the company represents characteristics which are common for the market and the industry (Bryman & Bell, 2007; Eisenhardt, 1989). The choice of a

single longitudinal case study is particularly appropriate in emergent economies where “studies relying only on secondary data may reflect a ‘reality’ that no longer exists” (Drummond, 2012). The research object was Drive, a medium size industrial company from the Ural economic region of Russia which has a well-established network of clients all around Russia, in former Soviet republics and other European countries. The company specialises in the production of hydraulic equipment and services related to installation and renovation of the hydraulic equipment. Today Drive provides a wide variety of hydraulic equipment and services to the wide row of suppliers, such as: mechanical and metallurgical plants, construction organizations, transport organizations, etc. Drive was born in the middle of the 1990s as a niche player who was able to offer to the market spare parts and various tools and instruments required for the maintenance of the expensive and complex hydraulic equipment. It was an entrepreneurial response to the companies’ lack of resources to buy the new equipment and their needs to buy the quality spare parts in a speedy and prompt matter at competitive price. As many other industrial companies established in the 1990s, Drive functioned as a satellite of the large and well-known formerly state-owned enterprise with established clients and vast resources inherited from the state funding. In its early years Drive managed to tap both the resources and the clientele base of this enterprise. Over the years, Drive has developed its own network of clients and resources base. The company represents a typical example of a company which was established in the volatile 1990s with shadow market rules and conditions, lack of resources and finding mechanisms and managed to survive the transformation period and evolved into a highly recognised market player in the Ural region. The experience of Drive can be used to illustrate the past experience and ongoing changes in the Russian industrial networks. Drive showcases the development of business strategies and of resources and capabilities over an extended period of building and expanding their business network: as the network was evolving, new resources were used and new capabilities were developed and vice versa, new organisational capabilities and approach to business allowed the company to attract new clients.

A series of semi structured interviews were conducted with 14 respondents in total. The table below represents the variety of respondents participated in this study. The respondents were recruited by using a snowball sample when each previous respondent recommended the following respondents based on their knowledge of the explored phenomenon. In addition, the researchers purposely approached managers of companies-partners and clients of “Drive” in order to verify the information gathered within the company. The discussed themes included incentives for business start-ups during the transformation period, communication within business networks, learning and sharing knowledge between partners, the impact of the market characteristics on the choice of business activities, the development of market infrastructure and the choice of service providers and products suppliers, opportunities for attracting finance and other resources, the relationships between established companies and start-ups, ethical considerations in

doing business at different stages of market transformation, the role of government and officials in doing business in Russia, the role of MNC and other international market players on the company's business operations and market positioning, and the use of the internet and other tools of electronic commerce in communication with the clients and partners.

INSERT Table 1 about here

The data initially gathered via interviews was supported by the marketing materials of the company as well as the secondary data received from government documents and economic reports and media publications. This allowed researchers to take a broader look at the situation in the industry and on the market and see if the company's situation is aligned with those market and industry trends. The secondary data proved that the choice of Drive as a unit of analysis allows to build the theory as the company showcases the trends which are common in Russian industrial networks.

Case analysis

We identified three very distinct periods in the company's development. Each of these periods demonstrates certain characteristics of the market development, common business practices as well as Drive's own market positioning and capabilities during respective period.

Economics of Relationships – 1. The middle of the 1990s – the end of 1990s

This period, the so-called, "primary capital accumulation period" [4], was characterised by the lack of state funding, lack of market infrastructure, lack of financial and production resources, lack of banks' loan and other financial services, downturn of industrial production and disintegrated networks. The market economy was declared but not supported by appropriate market infrastructure and institutions (Stiglitz, 2001; Butler and Purchase, 2004). The lack of funding and resources forced businesses to accumulate initial wealth. While the centralised industrial links which were previously maintained by the state were disintegrated, the new market industrial networks were not yet established. The level of trust in the society was very low (Ayios, 2004) and therefore, people relied on their "old ties" as outlined by Butler and Purchase (2008) and Mattsson and Salmi (2013). During this period Drive developed and used the following capabilities: maintaining relationships, exploring "old ties", tapping into industrial and financial resources of their "big" partner, motivating its staff to learn new way of doing business, fast learning of production techniques and client management.

The company Drive was established in 1995 as a machine processing workshop which initially used to service single orders from occasional clients on a casual basis. All key staff members had a previous work experience in production of hydraulic equipment working at the regional market leader in design, production and sale of hydraulic equipment - the State Hydraulic Production company - Pnevmostroimachina and this determined the choice of

industrial specialisation of the company. At the early stage Drive acted as a satellite of this large company (Pnevmostroimachina). This company has rich experience in the pneumatic equipment production since 1946, and since 1955 this company has been operating in the hydraulic equipment production. Even after reduction of the state funding on R&D in the early 1990s, in 1992 the company managed to start their own pump and motor production business based on the outcomes of their own R&D. At the same time, Pnevmostroimachina introduced more advanced type of hydraulic machines and their equipment and machines were perceived by the clients as “trustworthy” products.

As stated above, the key staff at Drive came out of Pnevmostroimachina. The founder and the CEO of Drive pursued his dream to become an independent entrepreneur, in his own words, he “wanted to taste the new avenues in business, wanted to be master on his own” [1]. As he further explained, he was fed up with having to fulfil the unreasonable orders, such as an order to fulfil the huge amount of production at the expense of quality or with the unqualified work, such as - rubbish collection, which he was requested to do from time to time [1]. Moreover, the founder of Drive sensed new market opportunities and was keen to experience something “something new, unknown and dangerous” [1].

In addition to the personal motivation of the Drive’s founder, the market environment at that time also was calling for an entrepreneurial initiative. While the “Law of the enterprise and the entrepreneurship” (1990) which was later replaced by the Civil code (1994) allowed private enterprises, there were no state funds available for new start-ups neither were banks’ loans available. At the same time, the production volume at large industrial enterprises such as Pnevmostroimachina continued to decline due to the abolished “state order”, the amount of production previously funded and purchased by the State and the lack of new clients. As result, large companies were unable to cover their fixed costs of production and pay salaries to their staff. Many qualified engineers and traders were leaving industrial enterprises in order to experience their own business. Many of them tried but only a few succeeded (Ledeneva, 2009).

As many other industrial start-ups, Drive did not have enough resources required to manage the full cycle production of the hydraulic equipment. Rather, they identified the market need for spare parts and various elements the maintenance of the hydraulic equipment. Moreover, the company was able to identify and fill in the market niche by offering spare parts which were highly demanded by the market because most of the clients could not afford to buy new expensive hydraulic equipment and required ongoing maintenance of existing equipment. (Ershova et. al., 2012). During this period, Drive effectively became an exclusive distributor of products and equipment of Pnevmostroimachina. Pnevmostroimachina had clientele who trusted the quality of the company’s products. These relationships were based on “old ties”, developed during decades of cooperation during the Soviet regime. However, clients needed to simplify the purchasing procedures and reduce the costs of the products of Pnevmostroimachina. As one of the company’s

client of that time recalled, “we did not want to wait for them [Pnevmostroimachina] to go around their hierarchy” [2] and “their [Pnevmostroimachina] were based on their costs and they did not want to negotiate” [3]. The top management of this large company indeed had an understanding that clients are looking for more flexible service, speedy product delivery and market prices on their products but could not address their customer’s expectations within the large state company. Furthermore, these managers had their own interest to sell the products of the state company but within a private structure. Often, managers and engineers worked both at the state company, such as Pnevmostroimachina as well as at a privately funded company, such as Drive.

Drive had a flat organisational structure, simple costs structure and was flexible in both manufacturing and client management. When clients approached Pnevmostroimachina looking for a pneumatic equipment, Drive was able to service them by selling Pnevmostroimachina’s products at much higher speed, higher customer quality and at lower prices than the company-producer. Clients, however, wanted to work with Pnevmostroimachina because they have known this company for many years and trusted it. As one of the earlier clients of Drive explained: “It was total bespredel in Russian at that time. We did not want to risk our money nor our industrial funds. When everything around you is going mad, all you want is to make sure that the situation will be predictable. So we dealt with Drive because we knew that it was backed up by Pnevmostroimachina” [2]

Staff at Pnevmostroymashina was not even aware that the products which they were making would be sold via a private entity. Drive and the company Pnevmostroymashina have become partners. These companies complemented each other. Drive was able to tap into Pnevmostroimachina’s resources and clientele whereas managers of Pnevmostroymashina were able to satisfy their private needs by earning an extra income within a private company. The clients benefited from an approved quality of service, speed of service and competitive prices. This was a common way of entrepreneurship within the state companies. As one of our respondents stated, “it was very common to that time that managers held a dual position: at a large state-owned company and at a private company which used to sell the products of a small company” [11]. Managers of Pnevmostroimachina were unable to break the rules at a very well-established enterprise but they were able to do what, in their words, “was practical and expected by clients” via Drive.

Economics of Relationships – 2. The end of the 1990s – the middle of 2000s

Since the end of 1990s and early 2000s, gradually, Drive has developed their networks of partners and clients both in Russia and in former Soviet Republics. As formerly state - regulated connections among industrial enterprises of Soviet Union were broken, the companies had to establish new contacts and re-connect with old partners. Among Drive clients are industrial enterprises which produce equipment and machinery for road building, municipal economy and forestry. For example, some of Drive clients include well established and positioned on the market companies with decades of experience in their respective

sectors, such as Ukrainian leader of hydraulic production – the plant Hydrosila (since 2004), Melytopolsky Tractor Parts and Mechanical Hydraulic Units Plants business (also a Ukrainian company, since 2006), a Russian leading producer of hydraulic equipment Eletsgidroagregat and Ukrainian plant Hydrosila Kirovgrad (since 2008). By the middle of 2000s Drive became a leading dealer of those respectable hydraulic producers in Yekaterinburg and Sverdlovsk region. Some spare parts were manufactured by Drive internally, using their own production facilities, some other parts were purchased from various producers of hydraulic equipment.

During this period the business relationships in Russia were still tied to the personal relationships. As opposite to the first period when Drive predominantly relied on old ties and their back up by Pnevmostroimashina, during second period business people started to become actively engaged into building new business partnerships via looking for common grounds. Several respondents reflected on their own experience of regular visits to the Regional State Concert Hall – Philharmonia – to listen to the classical music performed by the regional philharmonic orchestra and visiting national and international performers [4, 11, 5, 12]. As one of our respondents explained, “in Russia people do business with those who they know or have something in common. In the 1990s there were not so many people with special business education so we could not rely on old school ties. Some people who came to business at that time did not have a university degree. All they knew was to make money, some of them came from the shadow economy. Yet these people wanted to get recognition by the society. It is very trendy to go to the Philharmonia. Everyone who was anyone [in Yekaterinburg] was there”. This is aligned with reflections of other respondents who also recalled that [in the 1990s] people wanted to visit Philharmonia because “they wanted to look that they were belong to the circle” [12] and “they wanted to be seen with the right people”.

Philharmonia indeed became a regional centre of meeting and introductions of business elite, politicians, government officials and foreign business visitors to Yekaterinburg. Interestingly, that gradually, the strong culture of recognition of classical music has emerged. Nowadays, tickets to the philharmonic concerts are still sought after and still used by those who wish to get the right acquaintances and be seen involved with the right people. Managers of Drive have also recalled their involvement with the regional business elite and building partnerships via regular attendance of the cultural events. As they explained, “We had to show ourselves there. We had to be seen and convince people that they were there for good. Gradually people started to recognise us. This is the rule of the game here. They [potential clients] had to know you well before they would come to us [to do business], [6, 12].

This period witnessed rapid growth of the Russian economy and well-established market infrastructure. After the financial crisis of 1998 many Russian companies become determined to do things right, in a legitimate manner. At the same time, the institutional framework both at the Federal and regional level supported the development of business

process. The industrial market in Russia was revitalised and this was particularly evident in the city of Yekaterinburg and the Ural region, traditional centre of Russian industries. In 1999, the city of Yekaterinburg announced its Strategic Plan which stated that by 2020 the city will be transformed into the most significant and largest commercial centres in Russia. This is especially relevant to the Industrial B2B markets. During this period Drive developed and used the following capabilities: building relationships with clients, engineering expertise, service excellence, co-creation of products, marketing and electronic commerce and network building and expanding capabilities.

Since the end of the 1990s, gradually, Drive has developed their own networks of partners and clients both in Russia and in former Soviet Republics. As formerly state regulated connections among industrial enterprises of Soviet Union were broken, the companies had to establish new contacts and re-connect with old partners. Among Drive clients are industrial enterprises which produce equipment and machinery for road building, municipal economy and forestry. For example, some of Drive clients include well established and positioned on the market companies with decades of experience in their respective sectors, such as Ukrainian leader of hydraulic production – the plant Hydrosila (since 2004), Melytopolsky Tractor Parts and Mechanical Hydraulic Units Plants business (also a Ukrainian company, since 2006), a Russian leading producer of hydraulic equipment Eletsgidroagregat and Ukrainian plant Hydrosila Kirovgrad (since 2008). By the middle of 2000s Drive became a leading dealer of those respectable hydraulic producers in Yekaterinburg and Sverdlovsk region. Some spare parts were manufactured by Drive internally, using their own production facilities, some other parts were purchased from various suppliers - partners.

During this period Drive has become very skilful in marketing and client management. The company has been a regular participant of industrial exhibitions, including the annual international exhibition «Expo» which brings together the manufacturers and traders from all over the world as well as many other national and international exhibitions. The company is up to date with its electronic commerce operations; its web site is active and provides clients with online demonstration of their products and services. Managers and commercial specialists of Drive are proactive in visiting clients and personal sales. Sales at Drive are performed by engineers who have an in-depth understanding of particular characteristics of the hydraulic equipment. Moreover, Drive earned its reputation as a reliable producer and partner as well as a competent trader of highly specialised technical equipment. Drive managed to grow and develop their network of business partners and clients due to their flexibility and agility in response to the clients' needs. In fact, the most powerful way to attract new clients used by Drive at this stage is by word of mouth, or clients' referral.

Client management and relationships building is Drive's top priority. As Drive's senior manager explained, *“all the clients are important. There are no important and unimportant clients for us. We take care of every our client. We are ready to support them and their businesses. We don't try to obtain the sales volume, rather we build the partnership*

relations with our clients. We are sure: the successful and effective business is possible only on the basis of respectful and mutually beneficial relations” [7].

This was supported by a statement of another Drive’s senior manager who emphasized the fact that the company chooses *“the best products, technologies and ideas which are currently available in the international hydraulic equipment market” [10].* This manager also stressed that all company’s staff is paying a strong attention to the communications with the company’s clients. It is a Drive’s policy that every employee of the company is expected to follow strict rules of client management of the company and conduct himself as the company’s representative among clients.

Clients of Drive have been responding very positively to the company’s effort to prioritize clients’ needs. A manager of a road construction company, one of Drive’s long term clients, revealed that Drive really takes efforts *“to collaborate with the client so that together they (Drive and a client) can work out a mutual decision of the client’s problems in each exact case” [5].* This is also supported by a manager of an industrial company, another Drive’s long-term client, who said, that their company is able to learn about market and product changes from Drive: *“They [Drive] always inform us about technological novelties, new products and new facilities in the field of hydraulic equipment”[2].* This respondent also emphasised that *“The mutual contact [between his company and Drive] is permanent” [8].* All Drive’s clients declare that all the Drive personnel are polite, friendly and tactful, and that *“Drive as a company conducts themselves in front of the client as a united crew with the united principles” [9].*

This was the time when Drive has fast moved along a steep learning curve. Drive realised the need of clients not just to buy the equipment but also to have it repaired and maintained. The purchases of equipment by clients were also followed by installation services and staff training at the clients’ sites provided by Drive. Moreover, Drive has become a one-stop solution for its clients: first, the company was able to offer its clients a wide range of products from various manufacturers, and second, Drive was able to take responsibility for more complex orders which included customised products to target clients’ needs and working conditions. This was possible because Drive introduced its own logistics centre which included a warehouse. These new industrial facilities of Drive allowed the following operations: 1) working on customisation of products received from various suppliers to transform the products into ready to sell conditions, 2) manufacturing of spare parts, tools, instruments and other elements required for maintenance of the hydraulic equipment; and 3) production of non-standard products.

The middle of 2000s – present time

Since the middle of 2000s the market conditions in Russia can be characterised as well regulated and established. The rapid industrial growth since 2007, except a little drop after the global financial crisis in 2009, favoured the development of the market of hydraulics.

Traditionally, since the Soviet system of regional specialisation and segmentation, Russian industrial markets were highly focused on products with certain distinctive technical characteristics and there, there was no direct competition among different enterprises. Fulfilment of complex orders required cooperation of various manufacturers. The situation on the industrial market had changed when the companies were given the choice of their activities and production based on market demand (Smirnova, et. al., 2011). In the hydraulic market there is a huge variety of products such as armature, linings, pipes, hydraulic hoses of high pressure, hydro cylinders, hydraulic jacks, filters, warmth exchangers, measuring equipment, hydro rudders, hydro motors, and hydro pumps manufactured by various specialised producers. Drive accumulates all these diverse products and uses it for repair, maintenance, installation and service to satisfy the needs of its clients in the Ural region. During the third period Drive has evolved as a logistics and service centre on the hydraulic market. This period witnessed active participation of foreign companies in the Russian hydraulic market. Drive's reputation as a reliable partner won him partnerships with international market players and led to the development of new cooperation capabilities.

According to the majority of our respondents [1, 13 , 14, 8, 9, 2], at the current stage the most urgent issue which has to be dealt within in industrial networks is service. As one of our respondent explained, at present in Russia there is a huge amount of very advanced imported equipment, however, spare parts to this equipment are very expensive and it is very difficult to obtain them. In case if a user of this equipment contacts the original supplier regarding replacement of certain parts a quote and a delivery plan will be sent to me, however, the costs are generally very high and the waiting period for delivery is rather long, for example, it might take seven months [2 , 5]. This is explained by the nature of such orders: the ordered parts are generally very specialised products and there is no system of regular delivery in place. Some parts are more difficult to replace than the others. *“For example, a new filter element can be replaced easily, however, a replacement of a pump or a motor requires an additional work, especially, if replacement parts were manufactured by a different company rather than the original parts which have been removed. Hydraulic products manufactured by various companies usually have their unique characteristics and this makes the replacement process challenging. Moreover, there are differences in various technical characteristics and installation measures. In case if companies install hydraulic equipment by American standards, they face serious problems with ports of connections of pipe's distribution. To resolve these problems companies need adapters and special tools for making appropriate groove which cause additional costs. This is why products with American measures are not popular here”* [5, 9].

Often companies-clients require replacing existing hydro components made in Russia (or former Soviet Union) by imported hydro components. Clients expect that these new products will be imported but affordable. It is not common for clients to change existing imported hydro equipment to the one made in Russia, however, it happens in case if there is a need to create more cost efficient machine. The market is not a the mass-market, and

the product of different manufacturers are highly differentiated. There is no competition among producers of the hydraulic equipment. Drive plays the role of *“the one window”* or *“One stop solution”* for its customers.

Considering a high degree of specialisation in the hydraulic market and, at the same time, the need of consumers of the hydraulic equipment to get various hydraulic products for the completion of one project, there is a high demand on the centre of various hydraulic products, tools and instruments. In such market conditions, Drive has become *“a supermarket of hydraulic products”* [11]. Drive is *“grinded”* [3] under the customer. Customers get time savings and, possible, costs savings by obtaining various products at one place [from Drive]. In addition, Drive is providing its customers with the up-to-date information on new products, typical false cases and effective ways of resolving them. As Drive’s managers explained and customers confirmed, the company also seems to be able *“to balance between the desire of many companies to install imported hydraulic components and locally made customised operating electronics and gauges. The combination of imported and locally made products allows achieving high quality of products and costing savings at the same time”* [2, 3, 12].

In 2007, the company introduced a new service – diagnostics and repair of hydraulic equipment and in 2008 it opened their own warehouse of hydraulic equipment. In Russia, industrial producers generally do not offer additional services to the buyers of the equipment, especially, if they act as dealers of other larger producers. Once the equipment is sold the producer is not responsible for the repair and maintenance. Drive’s ability to offer to its clients the opportunity of diagnostics and repair and replacement of technical parts had certainly strengthened the company’s market position. Such vertical diversification also attracted international partners, for example, in 2008 Drive became an official representative of German company STAUFF, the company – producer of the high pressure industrial hydraulic equipment in the city of Yekaterinburg and the Sverdlovsk region. Later, other international companies entered the Russian market, such as Kastas Kaucuk Sun VE Tic.A.S., Turkey, Ponar Wadowice, Poland, and "Fer-ro" Hydraulic Pneumatic Machinery Industries & Trade Ltd.Co., Turkey, also delegated Drive the rights of their official representative in the City of Yekaterinburg and the Sverdlovsk region.

The entrance and operations of foreign companies to the Russian market and the Sverdlovsk region, is typically implemented via their Russian representative, a dealer, distributor or a representative with special responsibilities. As one of the market experts recalled, *“I do not know foreign companies who would enter the Russian hydraulic market on their own. I recall an Italian-Belarusian joint venture Trade House which sells compressor equipment [in Russia] on its own but there are no direct foreign operations in hydraulics”* [11]. Various manufacturers offer their products to the special consumer segments. As the products are highly specialised and target special consumer needs, there is no direct competition in the hydraulic market.

A Russian representative of foreign companies is responsible for a rather complicated custom clearance and no less challenging task of maintaining the relations with Russian authorities. As one of our respondents, a partner of several international companies, explained, *“The Russian market remains to be difficult [for foreign firms] in terms of the language and even more in terms of the mentality. It is not clear how to approach and talk to the government officials”* [10]. Foreign companies operating in Russia are trying to get accreditation of their products and services at relevant Russian institutions and this is also not a straightforward thing. Other challenges for foreign companies, particularly on the Russian hydraulic market, include the following:

Policies on import fees and taxes. The fees on the equipment and machines are rather high but the fees on spare parts and other components are much lower which makes it more attractive to import the later. For example, the technologies to produce hydro cylinders out of honing pipes and chrome plated rods are very common in Russia; however, these components are not manufactured in Russia and thus, they have to be imported;

The differences in technical standards between Russian and American hydraulic equipment which require technical adaptation and customisation of imported American equipment and spare parts;

The differences in the climate conditions, in particular, the need for special technical solutions for the exploitation of the hydraulic and electronic equipment in cold (minus 30 and below C degree) conditions.

The personnel of Drive was well prepared for collaboration with foreign companies who expect from the company’s staff the accuracy and adherence of standards. Even at the early stages of the company’s establishment its managers had a good understanding of the importance of communications with broader groups of stakeholders as well as the possession of the up-to-date technical and technological skills and competencies of the personnel. As result, Drive’s people demonstrate technologically competence and comfortable communications with the clients simultaneously.

The adaptation of imported equipment and the use of imported spare parts on the Russian hydraulic market are further driven by high market demand on “minimum costs” of exploitation of the equipment, lack of qualified specialists at companies –clients to be able to service this equipment in regular working environment. The clients of the hydraulic equipment are not concerned ergonomic characteristics of the equipment, rather, they require reliable, affordable and easy to use equipment. To satisfy this demand, Drive developed special technical and climate adaptation capabilities. As Drive’ specialists admitted, *“the foreign manufacturers of hydraulics significantly enriched the Russian market”* [7].

Drive has a lot of technical and technological experience and a well-developed clientele which make it a very attractive partner for foreign companies. Furthermore, Drive worked out special solution to ensure adaptation of imported hydraulic equipment to cold conditions. As Drive' technical specialists explained, *"We use special technical liquids, special systems of temperature stabilisation and warming. We even connect some technical arrangements to the usual power points. Moreover, we invented electronic blocs [to adopt the imported hydraulic equipment] which can work in conditions when the temperature minus 50 C degree. We tested them in a special "ice camera" [4].*

In 2008 Drive's Centre of Diagnostics and Repair became centre of the 1st category in warranty service and technical expertise in hydraulic pumps and motors, hydraulic distributors, hydraulic cylinders and sleeves with high pressure for leading hydraulic producers in Russia and Ukraine. Also in 2008, Drive developed a department of design of hydraulic systems. This structure was important because some systems ought to be unique. For example, Drive took part in the most difficult, compound and unique project by designing the hydraulic-fluid drive system for the reconstruction of the Bolshoy theatre in Moscow (2007-2011).

The Drive's managers further emphasise the importance of the department of design of hydraulic systems by stating that the company developed their specific resources and capabilities – design capabilities and there was a hunger among the company's specialists and managers for new and complex tasks and projects. In 2009 these capabilities allowed the company to become a distributor of an American (USA) company Parker, a producer of hydraulic transmissions and other important components for hydraulic equipment. Two more Russian producers of hydraulic equipment – Hydroapparat (Ulianovsk) and Repair and Mechanical Plant Beriosovsky (Sverdlovsk region) in 2009 and in 2012 respectively delegated Drive their exclusive dealership's rights.

In addition to building technological competence and design capabilities, Drive is highly committed to continuous staff development. The managers of the company firmly believe that knowledge sharing between the company and its clients is an important obligation of the market leader. Relationship building with clients is also an important priority of the company. As one of Drive's managers noted: *"Consulting on the topic of equipment exploitation is one of the tasks of our personnel. If the client's equipment stands on the subscriber service, the client can get any consultation by telephone. We deliver the seminars about the novelties to our clients- it is important! We don't limit ourselves by sending the brochure with the new products to the clients; we prefer to meet with each client, to have a good conversation about our business, to have a cup of coffee together. We usually meet twice a year. Sharing technological information and good communication with people are the two [components] in one which we use simultaneously" [10].*

We try to protect our clients from making mistakes. We believe that it is very important. In our business the price of any error, regardless in purchasing or in technology, is very high. People [clients] remember it [price for an error] for a long time. [1,10]

Company's staff can be approached by clients any time – 24/7. Client can contact the company in the most convenient for him way. Usually every client is supervised by a specially assigned Drive's manager who knows the specific conditions of the enterprise-client and its projects. In case if a client needs to contact Drive's manager, the latter is available at any time on the telephone. If this manager is on vacation, he then redirects the client to another manager, who takes responsibility for this client and his specific project. The company is looking after every client and cares about customer loyalty and long-term partnership with them. The managers of Drive are aiming at the long-lasting cooperation. After the project is completed, the company continues to collaborate with the client. A good instrument for this is the above mentioned seminar and the persuasion art of the managers, who must be excellent both in engineering and communications.

Discussion

The case analysis led to the summary of the Drive's capabilities developed at each stage of the company and market development based on characteristics and evolution of the Drive's industrial network. This summary is presented in the Figure 2 below. As the table 2 demonstrates, every stage of the changing transitional characteristics of the Russian economy resulted in certain characteristics of the hydraulic business networks and capabilities of Drive. The industrial network has been evolving from almost non-existence, disintegrated business connections and reliance on "old ties" to a gradual emergence of the new type of business networks based on demand of market and business development. If at the early state of market and business network development Drive's capabilities were built around market imperfections and challenges posed by the institutional environment, as the market and business network co-evolve, the company has been able to develop both capabilities embedded in their more advanced assets as well as in extended business network. Our study helps to explain how companies develop their capabilities at the same time as they extend their business network in a coevolutionary manner. This is aligned with the previous observations of Zaheer and Nachum (2011) who recognised a location's potential or "sense of place" in the development of firm's resources and capabilities.

The table 3 shows specific capabilities of Drive embedded in physical resources, such as assets and services of assets, and an emergent business networks and company's people. Again, a specific transitional stage of the Russian market and business network development has led to specific organisational capabilities. As the business network has evolved, more advanced organisational capabilities were developed by the company. Evidently, an entry to the Russian market of foreign companies at the latest stage of the transition has created not only the opportunities for technological advancement and learning but also incentives for the company's own R&D initiatives and development of business models. Capabilities are

evolving as the changes occur in assets, services of assets, people and network partners in which those capabilities are embedded.

Theoretical contribution

Overall, three specific contributions emerge from the present study. First, our research extends the RBV of firms in emergent economies by acknowledging the changing nature of resources and capabilities employed by firms at various stages of market transition. Our findings reinforce the importance of firm's capabilities to respond to the ongoing changes in the institutional context and market framework.

Second, recognise the importance of personal relationships in Russian business at every stage of market and network development, however, we show that as the market and business network evolve, the nature of relationships and network management is changing. Firms move away from reliance on "old ties" and personal relations to a market and customer orientation as main driving forces in the development of business networks. At the same time, our study confirmed findings of the previous studies on the long-term orientation and the changing nature of interfirm relationships in Russia's industrial market (Johanson, 2008; Salmi, 2004; Smirnova, 2011).

Finally, we contribute into the IMP perspective markets by providing evidences of development of capabilities in evolving business network. Not only we demonstrate each stage of the network evolution results in new firm's capabilities, but also we demonstrate that the changes in assets, services of assets, people and partners in which capabilities are embedded are also extend firm's capabilities.

Managerial implications

While "the Russian economy is still perceived as a black box by many businessmen aiming to enter this market" (Smirnova et. al., 2011), this study represents a longitudinal perspective on Russian business networks and recognition of the specific characteristics of specific stages of the market and business evolution. The main contribution of our study is that foreign managers of industrial companies anticipating entering the Russian market have to understand the importance of market adaptation – both technical and climate - of their products to the local market and the need of an appropriate accreditation of their products and services in Russia. These crucial tasks will require foreign managers and their companies to interact with their Russian counterparts and identify partners which will enhance business performance the most (Butler and Purchase, 2008).

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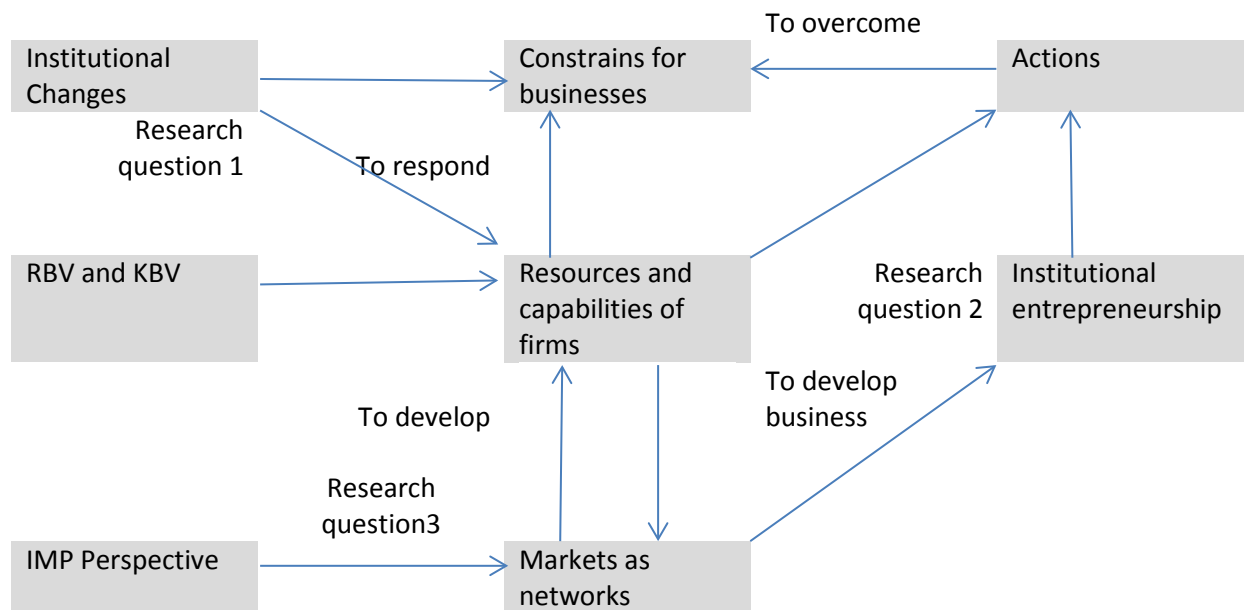


Figure 1. Conceptual model of the study

Table 1 Respondents of open-ended in-depth interviews

Respondent	Age	Position	Industry
1	51-55	The owner and managing director of the case company	Machinery, trading, services
2	35 - 40	Deputy director in commerce Pipe Plant	Metallurgy
3	46 - 50	Director of operations, road building plant	Machinery
4	51 - 50	Professor of management, head of a department at a Federal university, expert in the machinery industry	Higher education
5	46 - 50	Deputy director in purchasing, road building and maintenance	Road-building, public sector
6	31 - 35	Commerce director of a metal production plant	Machinery
7	26 - 30	Senior manager of the case company	Machinery
8	45 - 50	Engineer in purchasing, a regional rail	Railways

		station	
9	41 - 45	Engineer in procurement of equipment, regional research center for the development of new hydraulic technologies and testing imported technologies	Research and development
10	35 - 40	Senior manager of the case company	Machinery
11	41 - 45	Owner and director of a management consulting company	Management consulting
12	56 - 50	Chairman of a regional highly diversified company	IT, security, electronics, telecommunications, information systems and nets, medical equipment, civil building, engineering, education, environmentally-friendly solutions and technologies
13	41 - 45	Trade Representative of a foreign hydraulic company (Turkey)	Machinery
14	35 - 40	Sales manager of a foreign hydraulic company (Poland)	Machinery

Table 2

Evolution of an industrial hydraulic network and development of Drive's capabilities

Economic	Stage description	Characteristics of business networks	Capabilities and the role of Drive
Economics of relationships – 1 Middle of 1990s –	Period of “accumulation of primary capital”: lack of institutional support, market	Disintegrated, previous state-regulated	Maintaining “old ties”, working “around the system”, tapping into

end of 1990s	infrastructure, state funding, financial resources at all levels (state, regional, firms); unavailability of bank loans and other services; downturn in industrial production	connections no longer in place, new connections not yet developed; low trust, reliance on “old ties”	resources and clientele of a “big partner” (formerly owned company), learning about new ways of doing business and production The role of Drive – satellite of Pnevmostroimachina, the window into “a big company”
Economics of relationships – 2 End of 1990s – middle of 2000s	Rapid growth of industrial production, residential, commercial and road building; gradual development of market institutions and infrastructure; re-emergence of industrial networks Strategic plan of the city of Yekaterinburg – transformation into the leading commercial and industrial centre	Re-connection with former partners in the hydraulic industry in Russian and former Soviet Union; the importance of “to be seen” with the right people and in the right places; business is still linked to personal ties	Technical expertise, knowledge of a variety of hydraulic products and solutions, client management, expansion of business network based on good personal relationships; co-creation of hydraulic solutions The role of Drive – the leading dealer in the hydraulic industry, independent production of equipment and services
Strategic business networks Middle of 2000 - present	Institutional support in place but with market imperfections; highly bureaucratic governance system; rapid industrial growth, entry of foreign firms, demand on services and adaptation of international equipment to the local technical and climate condition	Emergence of business networks based on demand of rapid industrial growth and business development	Advanced technical expertise, innovative technology, network development, fast learning, care about customers (“protect clients” is a top priority) The role of Drive – one “stop hydraulic solutions”

Table 3

Analysis of capabilities in emergent industrial network

Stage in the company development	Capabilities embedded in			
	Assets	Services of assets	People	Partners
<p>Economics of relationships – 1</p> <p>Middle of 1990s – end of 1990s</p>	<p>Manufacturing facilities of Pnevmostroimachina</p> <p>Limited own manufacturing facilities for making tools, spare parts and maintenance</p>	<p>Technical maintenance</p> <p>Sales of spare parts</p>	<p>Working “around the system”</p> <p>Learning about new business models</p>	<p>Maintenance of “old ties”</p>
<p>Economics of relationships – 2</p> <p>End of 1990s – middle of 2000s</p>	<p>Own manufacturing facilities</p> <p>Trade facilities</p>	<p>Dealership</p> <p>Design</p>	<p>Technical competence and people skills</p> <p>Good personal connections</p> <p>Agility and flexibility</p>	<p>Maintenance of business relationships with well -established partners</p> <p>The ability to maintain good reputation</p> <p>The knowledge of a wide variety of products</p>
<p>Strategic business networks</p> <p>Middle of 2000 - present</p>	<p>Further advanced Manufacturing, trade and logistics facilities</p> <p>Centre of Diagnostics and Repair</p> <p>R&D facilities</p>	<p>Accreditation</p> <p>Design</p> <p>Adaptation</p> <p>Technical and engineering consulting</p> <p>R&D</p> <p>Management contracts</p>	<p>Advanced technical expertise and excellent communication</p> <p>Easy approach</p> <p>Continuity of contacts</p>	<p>Rich market knowledge</p> <p>Extended market reachability and accessibility</p>