

# “How do interfirm networks influence the emergence of Russian clusters?”

<b>AUTHORS</b>	Bella Butler
<b>ARTICLE INFO</b>	Bella Butler (2009). How do interfirm networks influence the emergence of Russian clusters?. <i>Innovative Marketing</i> , 5(3)
<b>RELEASED ON</b>	Friday, 06 November 2009
<b>JOURNAL</b>	"Innovative Marketing "
<b>FOUNDER</b>	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

© The author(s) 2022. This publication is an open access article.

Bella Butler (Australia)

## How do interfirm networks influence the emergence of Russian clusters?

### Abstract

This paper focuses on the process of emergence of Russian clusters and their role in assisting Russian business to gain a competitive advantage. The study of competitiveness in long-standing market economies has shown that individual companies are likely to achieve international competitiveness if they belong to strong clusters in certain industries and countries. In Russia, clusters and other forms of interfirm networks are still evolving. Our examination of Russian clusters suggests that they incorporate elements of both – clusters and strategic nets. Using this framework of clusters and strategic nets, we are studying how Russian clusters and nets are formed and structured, how they work, how they are different from other countries, and finally, how the process of internationalization of the economy affected Russian clusters and networks. This study raises questions for future research rather than provides answers on emerging clusters in Russia.

**Keywords:** competitiveness, clusters, nets, Russia, transition.

### Introduction

The Russian economy has been undergoing changes since the implementation of Perestroika. In the communist regime, up to the end of the 1980s, organizations allocated their relationships by the hierarchical political administration. These relationships were characterized by a lack of flexibility, difficulties in coordinating activities in the economy and limited communication within and between organizations (Johanson, 2008, p. 46). In some cases informal interfirm and personal/ social relationships were used in the planned economy to “fulfil the goals of central planners” (Grossman, 1977, cited in Johanson, 2007, p. 46). These informal relationships essentially overcame the problems caused by the inflexibility of the hierarchical system. The beginning of the transition economy witnessed a collapse of these “allocated” relationships between former suppliers and producers (Gurkov, 1996). This collapse caused supply problems within industries, particularly, those where suppliers were located in the former Soviet republics (Davis et al., 1996). With the collapse of existing formal supply relationships the informal network acted as the safety net and kept the systems operating. Moreover, informal networks played a significant role in achieving competitiveness of firms.

Today informal interfirm and interpersonal networks still play an important role in the market economy (Michailova and Worm, 2003; Butler and Purchase, 2004; Rehn and Taalas, 2004), especially for information transfer (Batjargal, 2003). Interpersonal networks are important when the economic environment is uncertain and unstable, as interpersonal trust mitigates risk and reduces the influence of turbulent macro-environmental changes

(Batjargal, 2003). This paper considers the evolution of relationships among Russian firms. In particular, the concepts of clusters and strategic nets are becoming important in order to understand the nature of Russian interfirm relationships due to the current political regional development policies.

There have been a lot of studies exploring the concepts of clusters and network (Florida, 1996; Ford and Håkansson, 2006; Porter, 1998; Whittington et al., 2009). Clusters and networks are often used to analyze how firms cooperate and interact (Ford and Håkansson, 2006; Håkansson, 1982; Håkansson and Snehota, 1995). Often these two concepts are used interchangeably, however, the focus of this study is to identify what do they have in common and what are their distinctive characteristics. Some scholars connect networks and clusters theories (Gordon and McCann, 2000; Markusen, 1996), while others emphasize the importance of networks for understanding the dynamics of clusters (Ingstrup, Freytag and Damgaard, 2009; Saxenian, 1994; Sorenson and Stuart, 2001). In the process of developing clusters, the role of an extended network from which clusters are built has been studied (Porter, 1998; Whittington et al., 2009), however, for the understanding of the value of networks for the process of clusters development a further study of characteristics of clusters and networks is required. Although networks and clusters have similarities, clusters are commonly defined as a concentration of interconnected actors in a certain geographical location, as opposite, networks are understood as a web of actors in an institutional structure (Ingstrup, Freytag and Damgaard, 2009). To illustrate this link between clusters and networks, this study draws on experiences and knowledge obtained from clusters formation and the role of networks in the development of industry based business networks

facilitated by the Russian Government. The purpose of this study is to utilize a broad IMP (Industrial Marketing Purchasing) theoretical approach to the analysis of business networks and clusters. This approach should assist to distinguish clusters characteristics and, at the same time, acknowledge that successful development and formation of clusters is based on one or more facilitated networks. To realize this purpose the following research question was formulated: How do interfirm networks influence the emergence of Russian clusters? In other words, how can the development of clusters be understood as facilitation of business networks? This topic has only been attempted by Pickernell et al. (2007) in a sociological and economic context and by Ingstrup, Freytag and Damgaard (2009) in an IMP network context. There are no studies on the interrelationships between clusters and business networks and on how the development of clusters is influenced by networks due to their interconnectedness in the Russian business context. This paper is attempting to fill in this literature gap. The paper further contributes to the understanding of networks and clusters and their meaning in a different cultural and business context.

The paper is organized in five main sections. The first section contains a general description of clusters and their role of competitiveness of firms and regions. This section is then followed by the analysis of emergent clusters in Russia. The next two sections respectively contain the theoretical discussion of business networks and the description of business networks in Russia. Finally, the paper ends with a discussion of the interconnectedness of business networks and clusters and managerial implications.

## 1. Competitiveness and clusters

In the transition market as well as in the long-standing market economy, there is a common understanding that competitiveness is achieved at the level of companies. As Porter (1990, p. 3) put it: “companies, not nations, are on the front line of international competition”. Yet, the most competitive companies are not spread around various territories and countries randomly. Furthermore, they tend to be presented as “a spatial and sectoral concentration of firms” (Bresnahan, Gambardella, and Saxenian, p. 114), or in clusters. In recent years, there has been a growing interest in the role of location, in terms of industry based clusters, or “geographic concentrations of linked industries” (Porter, 2003, p. 562).

Clusters have been examined in depth by various research schools, such as regional economics; the new economic geography; network analyses; the

innovation system tradition; evolutionary theory; and the capability approach (Martin and Sunley, 2007). All provide different, but complementary support to the analysis of clusters and innovations (Breschi and Malerba, 2007). The focus of this study is interfirm relationships within a cluster and their impact on the competitiveness of firms. In addition, this paper recognizes the emergence and dynamics of clusters in the transformation economy of Russia.

A cluster is defined by Porter as “a critical mass of companies in a particular field in a particular location, whether it is a country, a state or region, or even a city” (1998, p. 79). Porter (2003) also describes clusters as “a geographic proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types”. He emphasized the importance of externalities which “connect the constituent industries, such as common technologies, skills, knowledge and purchased inputs” (2003, p. 362). Clusters provide advantages otherwise unavailable such as localized knowledge spillovers, the purchase of specialized local labor, common purchasing, marketing and knowledge exchange.

At the same time, firms working close to each other and belonging to the same cluster compete against each other. Although, “competition within a cluster may be underpinned by certain collaborative norms” (Cooke, 2007, p. 82). Indeed, intensive rivalry in a close proximity has both a destructive, and a creative side. Porter (1998) noticed, that, if at least some competitors can cope with the situation (since total ousting of all competitors is usually impossible), they gain the experience of successful opposition to a strong competitor, creating competitive products even compared to the more advanced products of other market leaders, so they benefit from the challenge and become creative. Such an experience creates the basis for successful growth of the whole cluster of closely cooperating firms. Undoubtedly, the firm which manages to neutralize the market leader (by copying, or finding a niche solution etc.) will be capable of forcing less advanced rivals out of the market.

Due to the exchange of competitive attacks and responses, firms within a cluster go through the process of mutual training and, at the same time, they get used to each other. As a result, they share the same commercial attitude. This shared attitude enables firms, belonging to the same cluster, to win over other firms who are not using the same techniques of competition, leading to an intensively competitive cluster getting stronger against other outside clusters. For example, clusters which

originated in one region of one country are moving to the national market or to the international market. An important characteristic of a cluster, by this research, is that a competitive advantage is achieved as a result of intense competition within a cluster. This advantage is maintained and sustained due to an ongoing competition: firms within a cluster operate under a constant competitive threat from each other.

The characteristic mentioned above is the main difference between a cluster and a strategic net, discussed later. In a net, all firms are connected by the same competitive goal. Indeed, a net is deliberately designed by firms for a particular mutual purpose whereas a cluster is formed by competitors attracted by the favorable investment conditions of the region, available resources or government support. The competitive advantage which is achieved by one firm of the net is transferred to all the other members of the net via network connections. Thus, network connections within a cluster reinforce the ability of firms – members of a cluster – to grow and contribute to the growth of the whole cluster.

The earlier-stated focus of this study – to recognize the emergence and dynamics of clusters – also acknowledges the effect of the national context on clusters. “Clusters are embedded in specific national systems of innovation and production that differ in terms of development, actors, structure, government policy and legal and social institutions. These differences do shape the start, growth, and organization of a cluster” (Breschi and Malerba, 2007, p. 24). Clusters may present themselves differently in international markets in terms of sectoral, technological, and product specialization. These differences may have an impact on the development and growth process of a cluster. The next section discusses clusters in Russia.

## 2. Clusters in Russia

The forming of clusters is an important part of Russia governmental policies and regional development. Russia has always had strong regional development policies which resulted in internationally competitive clusters such as strategic defence or exploited waste natural resources, e.g. firms of the energy sector, the oil and gas industry, aluminium, the airspace industry. There are some internationally competitive clusters in Russia originating from the previous regime such as strategic defence or exploited waste natural resources, e.g., firms of the energy sector, the oil and gas industry, aluminium, the airspace industry. Thus, any international competitive advantage of these firms is not of a market origin. “Non-market competitive advantage was achieved not just by efforts of the firm, rather it was achieved as the play of external factors. It means that not every oligarchic group of the Russian oil and gas complex is able to form around itself a cluster of highly competitive firms” (Yudanov, 2007, p. 33). It is likely to lose a competitive advantage both by those companies forming the center of this group (for example, due to the reduction of explored oil storages), as well as by other firms involved in this cluster.

At present, regional policies promote clusters to focus on market needs of regions. Currently, Russia is divided into the seven federal districts (refer to Table 1). These districts are a level of administration for the convenience of the federal government of the Russian Federation. They are not the constituent units of Russia (with its federal subjects being the constituent units). Each district includes several federal subjects, each with its own budget. The various regional programs of the Russian Government are conducted at the level of 83 (shown in Table 1) federal subjects. Forming competitive industrial clusters is a current key priority of the Russian regional policy.

Table 1. List of federal districts of Russia

Name of district	Area (km²)	Population (2002 est.)	Federal subjects	Administrative center
Districts in Europe:				
Central Federal District	652,800	38,000,651	18	Moscow
Northwestern Federal District	1,677,900	13,974,466	11	Saint Petersburg
Southern Federal District	589,200	22,907,141	13	Rostov-on-Don
Volga Federal District	1,038,000	31,154,744	14	Nizhny Novgorod
Districts in Asia:				
Far Eastern Federal District	6,215,900	6,692,865	9	Khabarovsk
Siberian Federal District	5,114,800	20,062,938	12	Novosibirsk
Urals Federal District	1,788,900	12,373,926	6	Yekaterinburg

Source: [http://en.wikipedia.org/wiki/Federal\\_districts\\_of\\_Russia](http://en.wikipedia.org/wiki/Federal_districts_of_Russia).

One of the strategies of first priority for Russia is innovation. This strategy is governed at the Federal

level, whereas it is implemented and funded at the level of federal subjects. The regional governments

determine the most viable investment projects out of those submitted to them by both foreign and national investors. The investment projects selected at the regional level form the base of a regional cluster. For example, the innovation program which is currently being implemented in the North-West Federal District, in the City of Sankt-Petersburg, has the purpose of transforming the city into a leading international center of IT innovations (Fialkivsky, 2008). Currently, in the City of Sankt-Peterburg there are 12 innovative technological centers which are supported by the Innovation Policy, developed by the Government of City of Sankt-Petersburg. The Innovation Policy includes major priorities of innovative development of the city and Cluster Policy of the City.

Another federal district – Volga – is inspired to become the national leader in the car manufacturing industry. The government of the Volga district is planning to support both production of the end products and production of components; therefore, they encourage the development of the automobile cluster in the region (Scherbo, 2008). This cluster will be based on the enterprise GAZ – the Gorky Automobile enterprise established during the previous regime but significantly reconstructed and modernized. In the Nizhny Novgorod Oblast of the Volga Federal district alone, there are 95 thousand people who are currently working in the automobile industry and another 300 thousand employees working in other industries supplying the demand of automobile production. The Volga district has traditionally been the centre of car manufacturing in Russia, however, in recent years, GAZ has experienced problems selling its automobiles, due to the growing demand in Russia for imported cars. The regional government is trying to restore the industry and attract world leaders of car manufacturing such as Toyota. Another automobile cluster exists in the Republic of Tatarstan of the Ural Federal district. There is a main automobile enterprise – KAMAZ – the Kamsky Automobile Enterprise which is surrounded by thousands of small enterprises serving the main production. These small enterprises provide automobile components.

An automobile technical park AMUR is being formed in the Ural region, in the City of Novouralsk of the Sverdlovsk oblast (Chernavin, 2008). This technical park will be formed around the automobile enterprise “Automobiles and Motors of Ural – AMUR”. Currently, this enterprise imports 90% of its automobile components. It is planning to use up to 70% of its components made locally when the technical park becomes operational. It is expected that more than 30 local enterprises will participate in

this new cluster. For example, the Kamensk-Uralsk founding enterprise and a chemical enterprise Uralchemplast have expressed their interest in cooperating with AMUR.

It is hard to predict if these automobile clusters in traditional industrial regions of Russia will be successful because they are emerging through competition with existing international leaders of the same products and markets, a strategy which has not always proven successful (Breschi and Malerna, 2007). The world leaders of car manufacturing have not placed their enterprises in Russia in traditional industrial regions such as Volga and Ural. Instead, transcontinental car manufacturers such as General Motors, Toyota and Ford and Japanese car manufacturers such as Nissan and Suzuki have established their production in Sankt-Petersburg so as to benefit from close proximity to the Baltic ports and being able to use cheap sea transport for the delivery of components (Expert North-West, 2007). At the same time, European car manufacturers such as Volkswagen, Renault, Peugeot-Citroen have placed their production in Central Russia. These foreign car manufacturers currently use imported components for their production in Russia, however, some of them are making investments in the production of individual components in Russia. For example, Toyota brought into Russia their suppliers which include Toyota Boshoku (automobile seats), Stadko (components of the automobile's body), Magna (plastics elements) and Tenneco (silencers) (Rozmirovich, 2007).

Examples of new clusters in Russia show that they are emerging in special economic zones around existing resources, in particular, R&D and human resources. They are initiated and supported by the regional governments trying to address the needs of modernization of existing facilities and create new working places for appropriately qualified staff. These emergent clusters are also aimed at creating strong national enterprises limiting imports from international competition. These examples of new clusters in Russia support both propositions regarding clusters made in the previous part of the paper: within a cluster, firms develop their networks with suppliers, buyers, and community organizations; these networks operating as sub clusters contribute to the ability of firms to grow.

This study shows the differences between traditional clusters operating in a western context and emergent Russian clusters. First, Russia firms united in a cluster have a limited experience of market operations: rather, they are supported by the government. Second, how firms operating within Russian clusters have to compete with

internationally recognized and “branded” products even on their own national market and are likely to be in a position of followers rather than market leaders. Traditionally, clusters studied in a western context nurture internationally competitive firms due to competitive pressure of their home or regional markets. Russian firms have to learn to evaluate market and build strategic cooperation with customers for their long-term survival.

### 3. Strategic business nets

An important approach to considering the impact of Russian Government regional innovation policies on business networks is through the concept of strategic nets (Möller, Rajala and Svahn, 2005). Strategic nets are applicable due to their focus on supporting and nurturing innovation, as per current Russian policy. Strategic nets are classified according to the technological changes occurring and the structure of the network. Russian nets are undergoing radical political changes that are affecting their value systems. Therefore, their value systems are undergoing radical change, but due to political uncertainty rather than technological changes. Our argument is that the value proposition that is considered stable in one economy might be emerging and unstable in another economy, even though the strategic nets might be connected through a common actor.

Increased competition in global markets in recent years has led to the rise of various forms of partnering and interfirm networks in the former Soviet republics (Gulati, 2007; Möller and Svahn, 2006). 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, Gadde, Håkansson, and Shenota, 2003; Möller and Halinen, 1999; Möller and Rajala, 2007). The network perspective suggests that actors are embedded within networks of interconnected relationships that provide opportunities for and constraints on their actions (Möller and Rajala, 2007).

The term ‘interfirm network’ is being used to describe a wide range of relationships (Dyer and Singh, 1998; Ford et al., 2002; Möller and Svahn, 2006). A network organization was defined by Podolny and Page (1998, p. 59) as “any collection of actors ( $N > 2$ ) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise

during the exchange”. Möller and Svahn (2006, p. 987) stress that such structures exclude legitimate authorities from resolving disputes and they further define business nets as “intentional interorganizational structures which firms design deliberately for specific purposes”. Such an understanding of business nets as intentionally created collaborative forms distinguishes them from evolutionary networks. The exclusion of legitimate authorities is of consequence to Russian business nets as political influence from all levels of government affects business processes. Government intervention in regional innovation will be an important characteristic of Russian strategic nets.

Resources and capabilities of a firm reside outside the firm’s boundary (Gulati, 1999; Gulati et al., 2000; Lee, 2007). Moreover, the IMP (Industrial Marketing Purchasing) approach in studying business markets identified that many of the important resources available to the firm are under the direct control of other actors and can only be ‘controlled’ through the medium of interactive relationships and networks (Baraldi et al., 2007; Ford et al., 2002; Ford, Gadde, Håkansson, and Snehota, 2003; Ford and Håkansson, 2006). Araujo, Dubois, Gadde 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). A single firm has a limited control over its own resources not only because it is partially controlled by its networks, but also because networks cannot be controlled by any single firm: “networks are only weakly manageable, and no single ‘hub firm’ can provide direction or control to any network” (Ritter, Wilkinson, & Johnston, 2004; Möller & Rajala, 2007). Consequently, the IMP approach denies the strict distinction between “firm” and “environment”, rather, this approach assumes that firms create value at the level of interorganizational networks. Given that strategic nets are aimed at value generation systems, and the importance of government decisions “going your way” to ensure survival it is important that institutions at the political levels are included in any conceptualisation of Russian business nets. Informal networks are critical in assessing resources since the collapse of many allocated relationships.

The mutual work of firms results in a network and 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 the informational advantages (Gulati, 1999). Such resources influence a firm’s strategic behavior by altering the opportunity set available to it and (Lee,

2007), thus, the firm's "external" factors influence its "internal" factors.

The combination of resources and the value developed from combining resources within the business network is the focus of the value-system continuum of the strategic net concept (Möller et al., 2005). There are a number of characteristics of strategic nets that are important for this research paper. Firstly, each net will have an overarching single goal that it is aiming for. The goal is focused on supplying a particular value added product or concept to customers. There are three value systems and are distinguished by the extent of change occurring from stable systems with little change to emerging concepts undergoing radical transformation. We argue that political changes need to be included within the classification system for strategic nets to apply to Russian business networks. Supporting evidence for this argument is presented in the next section.

#### 4. Russian business nets

According to Ketels (2008), risks in the Russian economy are high. Risks bring suspicions which require certain ways of controlling and anticipating contracts and relationships. Even in long-standing market economies, people prefer to enter into business relationships with proven partners and this leads to an emergence of an informal net (Sorenson and Waguespack, 2006).

Russian business nets in the 1990s and early 2000s were often influenced by a power or an authority agency, for example, a regional division of the Federal Service of Security, local government and so on (Radaev, 2000). Many more businesses preferred state agency protection than was possible to provide. Such government associated network structures have grown and were strengthened in the last few years (Ketels, 2008). Nonetheless, there are now more active market nets spreading and interconnecting. In the early 1990s nets were based on good private connections such as relatives, friends, acquaintances, alumni, people whom one knew very well and could trust. Nowadays, nets are based not only on personal relationships, but also deliberately formed business associates on a professional level (Yudanov, 2007).

Nets in Russia also fulfil the function of protecting business and influencing their reputation. It is hard for a new entrant to enter into an established net — the new player needs personal recommendations of other participants of the net; he should be useful in something, for example, he should have experience of working in a certain market. Otherwise, no one will deal with him; definitely, no serious business

will be conducted with a new player who must face the alertness of other players.

Entrance into a net provides some advantages such as the chance of receiving additional favors from other members of the net, including favors which go beyond market transactions. These include price benefits, a chance to get goods and services without a payment in advance, and interfirm credit. Net members mutually support each other and such support is otherwise unavailable in normal business networks. Nets share commonly accepted "rules of the game". Spreading nets' internal ethics outside of the net can contribute to building common civilised rules of business conduct. There are common norms of doing business within a net, there are even standards of business ethics for "their own" members of the net, and other standards of business ethics for the outsiders-non-members of the nets (Radaev, 2000; Smirnova, 2002).

Indeed, competition occurs not among firms; rather, nets compete with each other (Smirnova, 2002). At the same time, competitors can be members of one net. However, competition within a net is not as intensive as it is outside of the net; competitors cooperating within one net would not use some forms of competition. Such network structures are similar to the insider/outsider networks associated with Guanxi (Michailova, Wong, 2003).

It is impossible to imagine the Russian market today without the participation of institutions of the state authority. Corruption is high at all levels of the Government (Rose-Ackerman, 2001). The Government is "involved, formally and informally, in several industries. For instance, the Government's equity in Gasprom allows it to influence the country's energy sector. Moreover, administrators at all levels can exercise near veto power over business deals that involve local or foreign companies, and getting permits and approvals is a complicated chore in Russia" (Khanna, Paleru, & Sinha, 2005, p. 73). As it was outlined previously, due to such a strong position of the Russian government in the economy, Russian business nets apply to the state agencies their protection and have more favorable climate for resolving various business related issues.

This position of the Russian Government as a power center is similar to the role of governments in other transition economies, such as China. The government provides businesses with support in terms of financing, information, and technology (Li and Atuahene-Gima; Lu, 2000, cited in Li and Zhang, 2007).

Businesses interact with state agencies regarding their actual entrance into the market, for example: to register firms; obtaining licenses for certain activities; obtaining offices for production and sales; to get

resources such as access to information and funds. These interactions are different from western based business markets in that obtaining funds, office space and resources is conducted within the private sector, rather than the public sector. Established businesses have to go through regular state control of their business activities. “Clearly, relationships with state agencies are an important part of a business strategy. It is naïve to think that anxious state officials continuously pull the monies from businesses, prevent their entrance to the market, set bureaucratic barriers, charge irregular fees, and conduct unplanned checking. Ofcourse, all these take place, but it is only tip of the iceberg” (Radaev, 2000, p. 1). In reality, the interaction of businesses with state agencies is much more complex. Commercial relationships between businesses and state agencies have become a common part of a typical business net. A crucial part of a commonly used business strategy is to have “their own” people in state institutions, such as in the tax and customs office and other key institutions. Large business structures put “their” people in state institutions. Small firms simply try to establish some connections there. Often having telephone numbers of an important state official makes a serious difference in the ability of businesses to resolve their current issues. This communication with state officials is not just about bribes, more often it is about an exchange of favors. State officials reassure entrepreneurs that their issue will be resolved and there is no reason to worry. However, in few days’ time entrepreneurs will be contacted and asked for a mutual favor and this request will be perceived as a commitment (Butler and Purchase, 2004).

Radaev (2000) distinguishes such mutual relationships with state officials from corruption. If in such relationships the law was broken in the interests of the third party, it is clearly corruption. However, it is impossible to catch it; it is intertwined in the regular activities of every common net.

Another function of business nets is the security and power protection of businesses (Butler and Purchase, 2004). Every large transaction requires security support. This is why having connections with power state authorities such as the Ministry of Internal Affairs (the Russian police) or the Federal Service of Security is important to every net. These state authorities provide businesses with protection and security services, based on a commercial principle.

Alternatively, business nets use private legal agencies formed by former officers of state power authorities, or private legal agencies organized by criminal groups who use their connections. Every business transaction, both formal and informal, is supported by a meeting of security agencies whose function is to ensure that transactions will be conducted without risk of ‘shooting’ incidents.

Russian nets are deliberately designed in order to decrease market uncertainty and develop further firms’ competitiveness. This is in direct contrast to Western nets which tend to exclude legitimate authorities (Möller and Svahn, 2006, p. 987), Russian nets are evolving around such authorities to ensure the very entry of firms into the business, to protect the interests of firms and improve the possibilities of obtaining resources, in particular information and funds.

The “weak interdependence in relationships between organizations and mutual ignorance” (Hallen and Johanson, 2004, p. 951) of the centrally planned economy is changing to interconnectedness of Russian firms. Modern Russian firms are learning to realize that their reputation and performance are determined by their business associates and the net to which they belong. In addition, increased competition in the Russian market between international and national firms, between national and regional firms has forced Russian firms to cooperate and to create entry barriers to the markets for outsiders of the net. The Russian market of fierce competition represents competing nets, rather than competing independent firms. Russian firms working within the same net are also competing with each other, particularly, when the main purpose leading to the consolidation of the net (such as lobbying of interests in the local government agency; getting favorable rates from suppliers) has been achieved. Some nets which consolidate competitors have more elements of a cluster.

The above discussion highlights the importance political influence plays within each strategic net. Therefore, to adopt the network capability base, different types of environmental uncertainty must be taken into account. Table 2 outlines the aspects to be included from a Russian perspective.

Table 2. Other network capabilities required for Russian business nets

Category	Network capability are outlined in Möller et al. (2005)	Other network capability for Russian strategic nets
Core value production	Production capability Delivery capability Process improvement capability	Obtaining politically secure contacts
Value-adding relational value production	Incremental innovation capability	Capabilities in institutional security
Future-oriented value production	Radical innovation capability Mastering customer’s business capability	Development of informal networks into government industry policy



The discussion above on the automotive networks highlighted that industries considered stable networks in one economic environment can be undergoing radical change to ensure future orientation of their production. The automotive industry needed to build all new network capabilities in order to compete with western built cars. Therefore, suppliers, assemblers etc. had to radically undergo a modernization program and incorporate new technologies. So, although the automobile strategic net is considered stable in western economies, as outlined in Möller et al. (2005), it would occupy the future-oriented value production or value-adding nets in Russia as existing companies are closing down or totally re-orientating their business models. Differences in the categorization of business nets between different economies needs further research.

### Conclusion and managerial implication

Given the differences in Russian business nets it is important that research into business nets include government partners or authority type aspects. This means that the conceptualization of nets needs to be broadened to incorporate Russian specific characteristics, e.g. the initiating role of the Russian Federal and Regional Governments in the formation of clusters. Also, the influence of state authorities may mean that power within the net would be disproportionately located within “non-market” actors. This could change the operation of the business net via

competition and market forces not playing a significant role in net emergence. Further research needs to be done to develop a better understanding of the role of non-market actors in Russian business nets.

Also, the subtle differences between clusters as per those outlined by Porter and Russian nets need further research. Clusters work on competition within the network strengthening the surviving businesses to be able to compete with those external to the cluster. While Russian business networks tend to focus on competition externally, with only minimal competition internally. Limited internal competition and strong position of the government as a facilitator of clusters distinguish Russian clusters from those in the developed economies. The authorities assist businesses in identifying the resources and providing guidelines for the use of the actors’ knowledge and the network setting.

The study concludes that the business network approach used to analyze Russian business networks is more theoretically driven in describing the interfirm relationships than the cluster approach. The network approach helps better understand the particularities of the network development and extensions of networks make a base for the formation of clusters. The two approaches – business networks and clusters – are interconnected in the Russian business context and networks create favorable conditions for clusters development.

### References

1. Batjargal, B. (2003). Social capital and entrepreneurial performance in Russia: A longitudinal study, *Organization Studies*, 24(4), pp. 535-556.
2. Baraldi, E. Brennan, R. Harrison, D. Tunisini, A. Zolkiewski, J. (2007). Strategic thinking and the IMP approach: a comparative analysis. *Industrial Marketing Management* 36, pp. 879-894.
3. Breschi, S., and Malerba, F. (Eds.) (2007). *Clusters, networks, and innovation*. Oxford University Press, New York.
4. Butler, B. and Purchase, S. (2004). Personal networking in Russian post Soviet life. *Research and Practice in Human Resource Management*. 12(1), pp. 19-32.
5. Chernavin, P. (2008) AMUR invites. *Expert Ural*. 9 (318), 3 March 2008. Retrieved on the 14<sup>th</sup> of March 2008 via [http://www.expert.ru/printissues/ural/2008/09/news\\_amur/](http://www.expert.ru/printissues/ural/2008/09/news_amur/).
6. Davis, J.S., Patterson, J.D., and Grazin, I. (1996). The Collapse and reemergence of networks within and between republics of the former Soviet Union, *International Business Review*, 5 (1), pp. 1-21.
7. Dyer, J.H. and Singh, H. (1998). The relational view: cooperative strategy and sources of interorganisational competitive advantage. *Academy of Management Review*, 23 (4), pp. 660-679.
8. Federal districts of Russia. *Retrived on 24 March 2008 from* [http://en.wikipedia.org/wiki/Federal\\_districts\\_of\\_Russia](http://en.wikipedia.org/wiki/Federal_districts_of_Russia).
9. Fialkivsky, D. (2008). Rain will not help to a dried mushrooms soup. *Expert North-West*, 9 (357), 3 March, retrieved on the 14th of 2008 via <http://www.expert.ru/printissues/northwest/2008/09/innovaciya/>
10. Florida, R. (1996). Regional creative destruction: production organization, globalization, and the economic transformation of the Midwest, *Economic Geography*, 72 (3), pp. 314-334.
11. Ford, D, Berthon, P., Brown, S., Gadde, L-E, Håkanson, H, Naude, P. et al. (2002). *The business marketing course: Managing in complex networks*. Chichester: Wiley.
12. Ford, D, Gadde, L-E, Håkansson, H. and Shenota, I. (2003). *Managing Business Relationships*. Chichester, UK: John Wiley & Sons Ltd.
13. Ford, D. and Håkanson, H. (2006). IMP – some things achieved: Much more to do. *European Journal of Marketing*, 40 (3-4), pp. 248-258.
14. Gordon, I.R. and McCann, P. (2000). Industrial clusters: complexes, agglomeration and/or social networks, *Urban Studies*, 37 (3), pp. 513-532.
15. Gulati, R.N. (2007). *Managing network resources: alliances, affiliations and other relational assets*. Oxford University Press, New York.

16. Gulati, R.N. (1999). Network location and learning: the influence of network resources and firm capabilities on alliance formation. *Strategic Management Journal* 28 (1): 17-37.
17. Gulati, R.N., Nohria, N. and Zaheer, A. (2000). Strategic Networks. *Strategic Management Journal*, Special Issue 21 (3): 203-215.
18. Gurkov, I. (1996). Changes of control and Business reengineering in Russian privatized companies. *The International Executive*, 38 (3), pp. 359-388.
19. Ingstrup, M.B., Freytag, P.V., and Damgaard, T. (2009). Cluster initiation and development: a critical view from a network perspective. *IMP annual conference at Euromed Management*, Marseille, France, 2-5 September.
20. Ketels, C. (2008). An Interview "Russia – a country of political risk", *Expert-Siberia*, 12 (201), 24 March.
21. Khanna, T., Paleru, K.G., and Sinha J. (2005) Strategies that fit emergent markets. *Harvard Business Review*, June 2005, pp. 63-76, p. 73.
22. Lee, G.K. (2007). The significance of network resources in the race to enter emerging product markets: the convergence of telephony communications and computer networking, 1989-2001. *Strategic Management Journal* 20 (5), pp. 397-420.
23. Li, H., and Zhang, Y. (2007). The role of manager's political networking and functional experience in new venture performance: evidence from China's transition economy. *Strategic Management Journal*, 28 (8), pp. 791-805.
24. Markusen, A. (1996). Sticky places in slippery space: a typology of industrial districts. *Economic Geography*, 72 (3), pp. 294-314.
25. Michailova, S. and Worm, V. (2003). Personal networking in Russia and China: Blat and Guanxi. *European Management Journal*, 21(4), pp. 509-519.
26. Möller, K.I. and Halinen, A. (1999). Business relationships and networks: managerial challenge of network era. *Industrial Marketing Management*, 28, pp. 413-427.
27. Möller, K., Rajala, A., and Svahn, S. (2005). Strategic business nets – their type and management. *Journal of Business Research*, 58, 1274-1284.
28. Möller, K.I. and Rajala, A. (2007). Rise of strategic nets – new models of value creation. *Industrial Marketing Management*, 36, pp. 895-908.
29. Peng, M.W. and Health, P.S. (1996). The growth of the firm in planned economies in transition: institutions, organisations, and strategic choice. *Academy of Management review*, 21, pp. 492-528.
30. Pickernell, D., Rowe, P. A., Christie, M. J. and Brooksbank, D. (2007). Developing a framework for network and cluster identification for use in economic development policy-making. *Entrepreneurship and Regional Development*, 19 (4), pp. 339-358.
31. Podolny, J.M. and Page, K.L. (1998). Network forms of organisation. *Annual review of sociology*, 24, pp. 57-76.
32. Porter, M. (1990). *The competitive advantage of nations*. The Free Press, New York.
33. Porter, M. (1998). The Adam Smith address: Location, clusters, and the 'new' microeconomics of competition, *Business Economics*; Jan.
34. Porter, M.E. (1998). Clusters and the new economics of competitiveness. *Harvard Business Review*, pp. 77-90.
35. Porter, M.E. (2003). The economic performance of regions. *Regional studies*, 37 (6&7), August/October, pp. 549-578.
36. Rehn, A. and Taalas, S. (2001) "'Znakomstva I Svyazi' (Acquaintances and Connections) – Blat, the Soviet Union and mundane entrepreneurship," *Entrepreneurship & Regional Development*, 16 (May), pp. 235-250.
37. Radaev, V. (2000). Nets World. *Expert*, 12 (225) 27 March, retrieved on the 14<sup>th</sup> of March via <http://www.expert.ru/printissues/expert/2000/12/12ex-radaev/>
38. Rose-Ackerman, (2001) Trust and honesty in post-socialist societies, *Kyklos*, 54(2/3), 415-444.
39. Ritter, T., Wilkinson, I.F. and Johnston, W.J. 2004. Managing in complex business networks, *Industrial Marketing Management* 33(3), pp. 175-183.
40. Rozmirovich, S. (2007). Innovators are choosing an internal contour. *Expert*, 3 (544), 22 January, retrieved on the 14<sup>th</sup> of March via [http://www.expert.ru/printissues/expert/2007/03/news\\_6\\_konkurs\\_russkih\\_innovacy/](http://www.expert.ru/printissues/expert/2007/03/news_6_konkurs_russkih_innovacy/)
41. Saxenian, A. (1994). *Regional advantage: culture and competition in Silicon Valley and Route 128*, Harvard University Press, Cambridge.
42. Smirnova, E. (2002). Nets business. *Expert Ural*, 31 (66) 26 August. Retrieved on the 14<sup>th</sup> of March 2007 via <http://www.expert.ru/printissues/ural/2002/31/31ur-bis/>
43. Sorenson, O. and Stuart, T.E. (2001). Syndication networks and the spatial distribution of venture capital investments. *American Journal of Sociology*, 106 (6), pp. 1546-1588.
44. Sorenson, O. and Waguespack, D.M. (2006). Social networks and exchange: self-confirming dynamics in Hollywood. *Administrative Science Quarterly*, 51, pp. 560-589.
45. Scherbo, G. (2008) Spring for regions. *Expert Volga*, 11 (99) 17 March, retrieved on the 18th of 2008 via [http://www.expert.ru/printissues/volga/2008/11/interview\\_klochay/](http://www.expert.ru/printissues/volga/2008/11/interview_klochay/)
46. Whittington, K.B., Owen-Smith, J. and Powell, W. (2009). Networks, propinquity, and Innovation in knowledge-intensive industries. *Administrative Science Quarterly*, 54 (1), pp. 90-122.
47. Yudanov, A.Y. (2007). *The experience of competition in Russia: reasons of successes and failures*. Knorus, Moscow.
48. Yli-Renko, H. Autio, E. and Sapienza, H.J. (2001) Social capital, knowledge acquisition, and knowledge exploitation in young technology-based firms, *Strategic Management Journal*, 22 (6-7), 587-613.