TRANSFORMING INDUSTRY LANDSCAPE IN RESPONSE TO THE TRANSITION OF THE ECONOMY – THE CASE OF THE RUSSIAN BAKERY INDUSTRY

TRANSFORMIRANJE INDUSTRIJE KAO ODGOVOR NA TRANZICIJU GOSPODARSTVA - SLUČAJ PEKARSKE INDUSTRIJE U RUSIJI

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SAŽETAK

Mnoga tranzicijska gospodarstva prošla su ili još uvijek prolaze značajne promjene. Ciljevi ovog rada jesu na primjeru pekarske industrije u Rusiji pružiti dublje razumijevanje i longitudinalnu perspektivu o tome kako se tranzicijski proces i institucionalne promjene u gospodarstvu odražavaju na napredak neke industrije. Promjene na razini industrije nisu vođene samo gospo-

Key words:
transition economy, industry evolution, competition, cooperation, Russia

ABSTRACT

Numerous emerging markets have undergone or are still undergoing substantial transition processes. The aim of this paper is to provide, on the example of the Russian bakery industry, a deeper understanding of and a longitudinal perspective on how the transition process and institutional changes in the economy are reflected in the evolution of an industry. The changes at the darskom tranzicijom već i strateškim odlukama sudionika na tržištu. Te su odluke povezane s intenzitetom i prirodom natjecanja unutar industrije te pronalaženjem nove ravnoteže između suradnje i natjecanja u industriji. Istraživanjem se nastoji ostvariti doprinos postojećoj literaturi kroz pružanje boljeg razumijevanja konteksta napretka industrije u tranzicijskom razdoblju. Primjenjujemo klasičnu analizu industrije kako bismo istražili ključne pokretačke sile konkurencije. S druge strane, fokusiramo se na to kako sudionici u industriji odabiru mehanizme vladanja zamjenjujući prethodno postojeći sustav centralnog planiranja. Rezultati istraživanja pokazuju postojanu heterogenost unutar izabrane industrije, što rezultira bitnim razlikama u prirodi i procesu razvoja industrije.

industry level have been driven not only by the economic transition, but also by strategic choices of market players. These choices are linked to the intensity and nature of the intra-industry rivalry and finding a new balance of cooperation and competition in the industry. The study aims to contribute to the literature by providing a rich contextual understanding of the industry evolution over the transition period. We apply classic industry analysis to investigating the key driving forces of competition. On the other hand, we focus on the manner in which industry players select a governance mechanism, replacing the previous centrally planned system. The findings of the study demonstrate persistent heterogeneity within the selected industry, resulting in substantial differences in the nature and the process of industry evolution.

INTRODUCTION

Emerging markets represent a significant part of the world economy with a tendency to expand their share (Wilson & Purushothaman, 2003). According to Sheth (2011), "emerging markets are considered as natural laboratories in which theories and assumptions can be tested, new insight of value chain's actors' interactions and relationships can be highlighted, new generalizations derived, and new elements of theories are operationalized in specific settings" (Seth, 2011, p. 2).

Indeed, many emerging markets have undergone or are still undergoing substantial transition processes, linked to institutional changes, changes in the market landscape and structure. These changes have not only been driven by the economic transition, but also by the strategic choices of market players (Peng, 2003). This economic and institutional shift has been a strong motivation for the companies to reconsider their strategies in the context of a changing industry landscape, appearance of new market players and reshaping the balance of power in the market.

However, existing research claims that institutional changes have a strong impact on the determinants of inter-firm relationships, reflecting changing structure of market players, their new role and the nature of rivalry in the industry. Existing research finds these processes to be strongly underinvestigated as far as transition economies are concerned (Johanson, 2008; Salmi, 2004). Moreover, some studies claim that adding the perspective of institutional context is required to even well-established concepts and frameworks (Narayanan & Fahey, 2005). This question fits well in the research agenda of how firms react to new rules in society and economy (Peng, 2003) by defining their strategies, relational rules and structures of inter-firm cooperation and competition.

The aim of the paper is to provide a deeper understanding of and a longitudinal perspective on how transition process and institutional changes are reflected in the evolution of an industry on the example of the Russian bakery industry. We are focusing our attention on the transformation process in a transition economy, implying that institutional and other macro-level changes will contribute to the nature of industry evolution over a relatively short period of time. Our main research questions are focused on the key driving forces of industry transformation and on the resulting industry landscape, including the strategies employed by industry players and the balance of competition and cooperation within the industry.

A dynamic development of market conditions and institutional changes in Russia over the last decades has led to a strong transformation (North, 1992). However, as one of the BRIC economies, Russia seems to be avoided in the overall academic discussion and remains an "enigma" (Economist, 2008) tor both researchers and practitioners. Existing research on Russia can be described as fragmentary and capturing only some aspects of the transformation process. According to Ahlrstrom (2010), there is insufficient research on how firms adjust their strategies to changes in the institutional environment that happened so rapidly in the case of Russia (Lasarev & Gregory, 2007).

An analysis of existing research on Russia reflects a significant gap in the investigation of the outcomes of the transition process on company behavior. Despite attention to the macro- and micro-level of analysis, existing research on Russia lacks attention to the transition process at the industry level. There is no focus on how the transition process has affected the industry landscape or strategies of market players in the industry evolution context.

This papers aims at analyzing an evolutionary transformation on the example of one selected industry. The Russian bakery industry demonstrates a transformation from a distribution-driven system within the planned economy to a market-oriented industry structure. This change was determined by dissolution of the planned economy and heightened industry rivalry. We investigate how resulting transformation has led to the evolution of vertically integrated structures and to the formation of inter-firm alliances.

An additional contribution is to be provided by addressing the question of whether a strategic choice of companies in one industry over time is the same for the companies in different regions. This question supports the statement about a substantial heterogeneity of emerging markets (Sheth, 2011; Djankov & Murrell, 2002; Hoskisson et al., 2000) and implications for a market analysis and a segmentation of these markets, suggesting that the uniqueness and specificity of each region or large city need to be taken into consideration. Can we imply that, based on its determination by the heritage of centrally planned economy, the market will change in a unified way throughout the country? Or will there be several trajectories, determined by institutional change and the factors of strategic choice in competing with each other (Peng, 2003)?

The paper is organized as follows: firstly, we present a theoretical basis of the study with the focus on the role of inter-firm relationships in adjusting the firms during the transition process; secondly, the methodology of the study and the levels of analysis are described; and finally, the results of the industry analysis with a focus on two regional cases of Saint Petersburg and Moscow regions, as well as theoretical and managerial implications are presented.

1. TRANSITION PROCESSES AND CHANGING MARKET LANDSCAPE

Existing research literature suggests that transition to a market economy is reasonable only on the condition that it improves efficiency of the economy and leads to overall superior performance (Kolodko, 2000). Compared to centrally planned economy, market economy can be considered Pareto superior (Wagener, 2001, p. 1); however, the transition process leads to multiple challenges for market players, and its outcomes are subject to strategic choice made by firms.

Transition to a market economy has been considered in the literature "as a historical process of complex changes leading from the centrally planned economy … to an open economy based upon market coordination and dominance of private property" (Kolodko, 2000, p. 273).

Market transformation is mostly considered to happen via a regulatory impact by policy makers. As Peng (2003, p. 280) says, "numerous publications in the market transition literature concentrate on state-level policies, such as liberalization and privatization, and leave firm-level strategies relatively unexplored, other than the naïve belief that competitive strategies will 'naturally' emerge". However, transition processes can also contribute to an evolutionary transformation and substantial changes in the industry structure and market landscape.

Conditions required for a successful transition include the development of new institutions (Peng, 2003; Puffer & McCarthy, 2007). Considering that institutions are "the rule of the game in the society" (North, 1992, p. 477), Peng (2003, p. 283) formulates the key question as "how do organizations play the new game when the new rules are not completely known?". According to existing studies, in the circumstances of lacking institutional developments and unstable environment, companies tend to rely on informal relationships and traditional values, while also exerting pressure on the authorities to progress with creating formal institutions (Puffer & McCarthy, 2007). Puffer and McCarthy (2007, p. 2) define this phenomenon as the "institutional pull".

Considering an incremental pace of institutional change (North, 1992), the role of companies in creating institutional pull and influencing transition process is increasing. Market players create their own rules to substitute market inefficiencies. The transition process leads to the creation of rather informal, relations-based economic exchanges, instead of those based on formal rules, typical for more developed economies (Peng & Heath, 1996). According to Peng (2003, p. 276), firms in transition economies are moving away "from a relationship-based, personalized transaction structure calling for a network-centered strategy to a rule-based, impersonal exchange regime suggesting a market-centered strategy". Such a perspective implies that changing relationship structures will have a leading role in the industry evolution, requiring a longitudinal approach to investigate a changing market landscape and strategic choices of market players.

1.1. Industry analysis: a multi-level approach

At the industry level of analysis, adding macro-level factors can provide an additional contribution to understanding the strategic behavior of firms. Indeed, existing research on emerging markets claims institutional factors are of paramount importance (Shirokova & McDougall-Covin, 2012; Puffer & McCarthy, 2011) when studying emerging or transition economies.

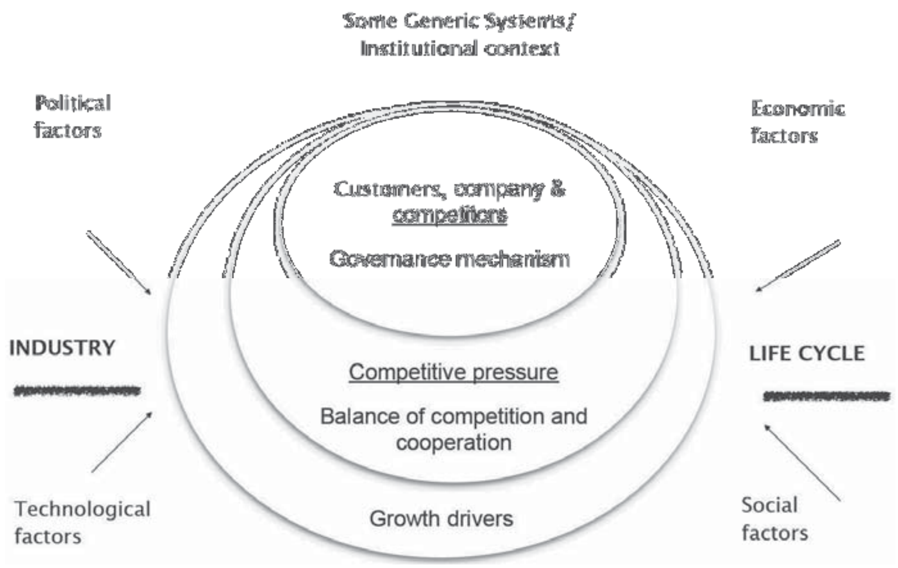
Traditional tools of industry analysis imply, but do not directly include the institutional context. Porter (1979) stated that the nature of competition in the industry is defined by five forces, including a degree of rivalry among existing competitors, bargaining power of buyers and suppliers, availability of substitutes and entry barriers to the industry. Their combined effect will have an impact on the attractiveness and profit level in an industry; and if the five forces are intense, the potential for any company in the industry to reach an attractive ROI will be low (Porter, 2008). Moreover, Porter (2008, p. 81) claims that the "industry structure drives competition and profitability, not whether an industry is emerging or mature, high tech or low tech, regulated or unregulated". Despite the latter statement, there is evidence in recent Porter's work (2008) that there is a chance of getting into pitfall, in looking at an industry, when keeping analysis static and ignoring industry trends. In other words, when an economy itself is changing, applying static industry analysis can still help identify an attractive industry and judge on the industry nature of competition and profitability potential. However, these driving forces will not fully explain the nature of the industry evolution.

According to the original five forces framework by M. Porter (1979), each element of the framework can be considered as having a favorable, neutral or an unfavorable effect on the industry rivalry. Also, there is a high interdependency between the elements of the framework (Grundy, 2006). A combination of factors, resulting in a unique industry landscape, is changing over time. Indeed, according to existing research (Narayanan & Fahey, 2005), frameworks of industry analysis can be transformed in "a more dynamic model", reflecting, for example, multiple levels of analysis and widening the range of factors to be included into consideration.

Narayanan and Fahey (2005) suggest investigating the factors of competitive pressure (e.g. substitutes or low entry barriers) and growth drivers (e.g. industry innovations), in line with the traditional industry analysis approach at the industry level. In addition, they highlight the role of the macro-level and the micro-level perspective for the analysis of an industry life cycle.

For example, when studying the application of the five forces framework to emerging economies, they have suggested considering the institutional context, including such factors as transaction costs, capital flows and laws, governing rivalry, as influencing the way strategic decisions are made by firms in the context of emerging economies. Thus, the institutional context and other macro-level factors, including economic or technological ones, can be added to the industry analysis to reflect the realities of an emerging or transition economy. Industry evolution can thus be also investigated from the perspective of a reaction to macro-level factors, such as in-

Figure 1: Dynamic model of the industry evolution analysis



Source: modified from Narayanan & Fahey, 2005, p. 217.

stitutional context. From that perspective, it becomes relevant whether market players can influence the industry transition (that is, use the institutional "pull") or whether they simply follow a certain path dependence, since their strategic choices are influenced not just by the industry factors, but also by the institutional context.

Finally, the micro-level reflects the behavior of a particular firm in selecting a competitive strategy. However, from the industry perspective, this behavior can be seen as an isolated strategy, a strategy within a dyadic relationship or within a wider network of relationships, since transition from a centrally planned to a market economy is embedded in social and relational structures. Thus, we can imply that any industry evolution would be associated with the change in industry structure links among firms, and the outcome of such change will not only reflect the intensity and the nature of the competition, but also the balance between competing and cooperating within the industry. The resulting firm behavior is closely related to the selection of a governance structure, as firms face the need to decide on strategic options of interacting with each other via competition or collaboration, or a combination of both (Peng, 2003). This choice is both subject of macro-level changes and to the choice of a firm. Indeed, institutional changes lead to changes in the choice of the governance structure and contribute to a transformation of fragmented to integrated relationships (Johanson, 2004).

1.2. Role of the governance mode choice in the industry context

In order to investigate the resulting balance of competition and collaboration at the industry level, as well as to understand firm behavior within the industry context, the framework of industry life cycle can be extended by adding the governance structure perspective (see Figure 1).

Changes in the economy in the transition process affect the use of knowledge, interaction and dynamics of inter-firm relationships (Johanson, 2008). Firms need to change and re-structure relational patterns, while also establishing and maintaining their own position in a new, dynamic network of partnerships (Salmi, 1996). As Salmi (1996) claims, major strategic challenge becomes related to the choice of a governance mode and an interaction mode within the continuum from pure transactions to strategic alliances.

Danese, Romano and Vinelli (2004) define a regulating mechanism via synchronizing of activities of all involved sides. Discussion on the transaction costs of the interaction assumes co-existence of two regulating mechanisms – market and hierarchy (Coase, 1937). "This dichonomous view of markets and hierarchies sees firms as separate from markets or more broadly, the larger societal context" (Powell, 1990, p. 297). When studying transaction costs, Williamson (1975) suggested that key transaction characteristics are uncertainty, frequency and investments, as governance structures. These are closely related to institutional changes and demonstrate the need to include them in the analysis of industry evolution. Given a long-term duration of the contract and its complexity, a more transaction specific governance structure may be suggested, introducing relational contracting. This logic represents an addition to market- and hierarchy-based governance mechanisms, and pays attention to relationship norms or the social context around the contract (Figure 2).

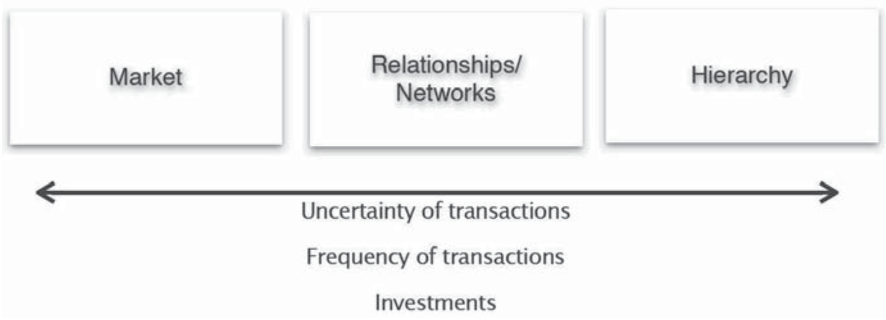
Based on the existing discussion, industry evolution can also be seen as a firms' choice of dominating governance mechanism. For transition economies, an almost "hierarchical" vertical planning has been replaced by the need to develop a capability of "plan matching" (Johanson, 2007). The emergence of a market economy has provided opportunities for purely transactional behavior, keeping up old relational structures or following vertical integration, or creating network structures as an alternative governance mechanism.

1.3. Industry as a network

Domination of the relational approach, resulting in talking about the paradigm shift at the end of 1990s, has contributed to a wider perspective of industry analysis.

Reflecting this wider perspective of industry analysis, Moeller, Rajala and Svahn (2005) suggest looking at industry as a network. Indeed, a "markets-as-networks" tradition (Johanson & Mattsson, 1994; Hakansson & Snehota, 2000) contributes to looking at individual markets and industries through the lenses of networks. From this perspective, network is not only a governance mechanism, selected by firms in the industry, but also a way to define and analyze the industry evolution of time via the changing network structures.

Figure 2: Alternative governance mechanisms



Source: Based on Power, 1990; Williamson, 1979

According to Moeller, Rajala and Svahn (2005, p. 1279), "industries are constituted of enmeshed networks of actors, making them often non-transparent and dynamic. Management has to be able to identify and understand the value systems and the actors through which the macro network produces value for the end-customers". Indeed, as Langley (1999) put it, strategy formation as a complex phenomenon is difficult to isolate in research. The network tradition can help add to the richness of analysis when looking at the industry transformation. Thus, the IMP group tradition can help in applying a dynamic perspective to looking at the industry transformation via such concepts as actor bonds, activity links, resource ties (Hakansson & Snehota, 1995). From that perspective, industry can be seen as a configuration of actors and value activities.

Taking the network approach to look at an industry implies understanding to what extent firms in the industry choose between the alternatives of "managing" vs. "being managed" (Wilkonson & Young, 1994), and how that choice is reflected in the strategies of intra-industry cooperation vs. competition. As Ritter, Wilkinson and Johnston (2004) say, the term "to manage" can be seen from two perspectives, integrating proactive and reacting meanings, thus representing a strategic choice and a reaction to an ongoing transition in the economy.

The network of organizations is based on regulating mechanisms, considering multiple partners, focusing on open-ended, mutual benefits, reciprocity norms and reputational concerns as methods of conflict resolution (Powell, 1990). A bilateral governance (Williamson, 1975) concept was further developed in order to reflect the diversity of cooperation formats (Webster, 1991) and the features of governance and selected regulating mechanisms.

Depending on the nature of a network, its goals and resource levels (Moeller & Rajala, 2007), networks are powerful phenomena that cannot be avoided when analyzing industry transformation.

Not occasionally, there is a very strong network and relational focus in existing research on Russia. Some studies are based on the macro-level approach, investigating the role of institutional change (Salmi, 2004), institutional influence on network characteristics (Jansson, Johanson & Ramström, 2007), formal and informal institutions as a driver of business development (Puffer & McCarthy, 2011), including industry, via determining the choice of governance mechanism by industry players. Another group of researchers is investigating the level of a firm, adapting to the transition process (Halinen and Salmi, 2001, Ayios, 2004; Belaya & Hanf, 2011). These studies have analyzed the adaptation to transition processes via relational strategies, focusing on such concepts as trust, personal relationships and power as tools used by Russian firms to adapt their strategies to the transition process.

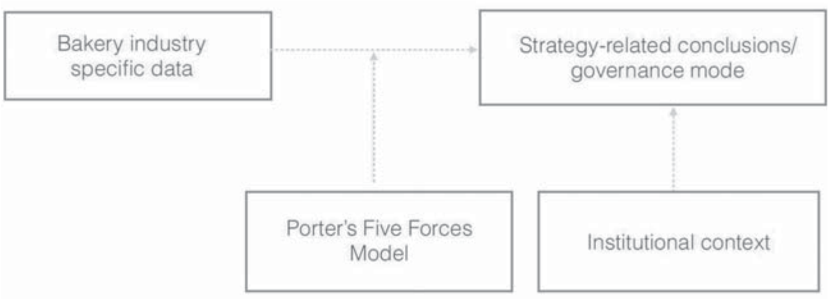
Both at the macro- and the micro-level of analysis, researchers are very much focusing on the aspects of a social embeddedness of Russian firms, as a reaction to the transition process and economy transformation. This attention to the social embeddedness and relational strategies on the example of Russian firms fits well with the concept of relational or network form of economic organization, reflecting the view that "economic exchange is embedded in a particular social structural context" (Powell, 1990, p. 300). Thus, the strategies of firms in an industry cannot be isolated from the understanding of how the transition process influences the way in which firms interact with one another.

2. METHODOLOGY

Our process is in line with the *existing industry research on emerging markets* (Narayanan & Fahey, 2005). *In our study, we investigate the industry landscape transformation by combining traditional industry analysis with the multi-level perspective, applying the network approach to the industry with a focus on the choice of dominating governance mechanisms by the indus-*

try market players. Moreover, we are taking a broader perspective on the industry analysis by combining a traditional industry framework with attention to the form of the governance mechanism selected by the market players (see Figure 3).

Figure 3: Methodology of the study



Source: Based on Narayanan & Fahey, 2005

When studying the evolution of the bakery industry in Russia, we use the elements of Porter's five forces framework to investigate changes in the forces driving competitive pressure and industry attractiveness (1979). However, while following the changes which occurred in the industry, we also are going to highlight the role of the institutional context and the behavior of market players in selecting their strategy and governance mechanism. In other words, we are going to observe the way industry is changing, in line with changes in the regulation of the interaction of industry players.

The specific characteristics of the phenomena being studied require attention to the research method. Process phenomena are spread over space and time (Langley, 1999) and the most important requirement when studying them is to take the context into account. The traditional approach using quantitative methods inevitably leads to a simplification of complex phenomena. Qualitative methods avoid such a problem (Järvensivu & Törnroos, 2010). After years of fascination with quantitative methods, the last decade has seen a resurgence of qualitative methods (Ravenswood, 2011). The emphasis is put on tracing cause-effect relationships and the processes themselves within a single case. Thus, the criterion of the case choice becomes the most important.

The method of case study involves a detailed analysis of a specific example to identify typical properties and suppose they are common for the class of analyzed phenomena (Ravenswood, 2011). Moreover, the case study method has several useful characteristics, distinguishing them from quantitative research methods, such as: they provide an opportunity to answer the question of how or why something happened, they do not require control over behavioral events, and they are oriented to current events (Yin, 2002; Kyj & Kyj, 2010). Existing research shows that the results obtained in the case study can be extrapolated if the cases themselves are chosen scientifically correctly and in accordance with the purpose of the study (Riege, 2003).

The current study focuses on an in-depth longitudinal investigation of a single industry on the example of the Russian bakery industry. The selection of the Russian bakery industry for analysis is based on its dynamic development: indeed, over the last 20 years, the industry has overcome a substantial decrease in production, with consumers' preferences also changing rapidly.

Empirical data was collected as follows. Firstly, documents of an industry association were analyzed. These included the minutes of regular industry member meetings, an entrepreneurial codex of the association etc. This analysis allowed identifying key problems and specifics of the interaction among market players, as well as tracing the evolution of the industry through the years of transition.

Data collection took place by in-depth semi-structured interviews with industry representatives; 11 interviews in total were conducted with industry experts from two largest cities in the country – Saint Petersburg and Moscow (see Table 1). These largest Russian cities have a higher business concentration and better established relationship structures.

Table 1: List of interviewees

Company	Position
Saint Petersburg	
"Cheryomushki", St. Petersburg	Regional Director
"Karavay", St. Petersburg	Production and distribution director
"Khlebniy Dom", St. Petersburg	General Director
"Arnaut Saint Petersburg"	General Director
"Associazia Khlebopekov Sankt-Peterburga" Industrial Organization, St. Petersburg	Director
"Smolninskiy Khlebozavod", St. Petersburg	General Director
Moscow	
"Nastyusha", Moscow	The respondent agreed to take part in the interview on condition of anonymity
"Cheryomushki", Moscow	Commercial Director
"Khlebniy Dom", Moscow	Regional Manager
"Gildia Pekarey" Industrial Organization, Moscow	The respondent agreed to take part in the interview on condition of anonymity
"Zarya", Moscow	Marketing Director

All interviewees occupy executive positions either at the industry's leading market players or in industrial organizations. Transcripts of all interviews were made and coded in accordance with the coding form, developed in advance. The interviews were held by telephone or in person. The length of the interview varied from 40 to 90 minutes. The interview was subsequently transcribed with the permission of the interviewee. Most respondents gave a permission to cite their answers. The coding guide was developed and all researchers who took part in the study were familiarized with it.

All interview materials were used for the content analysis. The methodology for the analysis was developed on the basis of previous research (Krippendorff, 2004), enabling to conduct an objective, systematic and replicable analysis (Engelen & Brettel, 2011).

Following the narrative, we studied the nature of the constructs used by respondents, as well as the frequency of references to different concepts and relations among them. The frequency of reference was then used for a component frequency analysis (Weber, 1990). Such analysis allows not only a verification of the most important concepts in the industry, but also analyzing the nature of linkages among them. Three qualified coders were involved in the content analysis. The results showed a high level of agreement among the coders (cross-researcher reliability) (Krippendorff, 2004), which stood at 81% on average (ranging between 71% and 96%). Such a level of cross-researcher reliability corresponds to this type of research (Krippendorff, 2004). Then, all the disagreements were discussed and a consensus was reached on all controversial points.

According to the process theory, when studying complex phenomena, it is possible to focus on the data with temporal embeddedness as a way of helping explain strategic choices in the industry. Another recommended approach is to use visual the mapping strategy to present large quantities of information (Langley, 1999). Thus, all key events were highlighted and reflected in a visual map based on the data analysis.

3. DATA ANALYSIS

3.1. Market description and industry evolution analysis

Before the 1917 revolution, small factories prospered in the Russian bakery industry, but were mostly destroyed with the introduction of the centralized production policy. To supply the population with bread and to support the supply in case of a war, the policy of "a bakery for each region" was introduced. This involved the creation of excess capacities in comparison with the current level of demand, shaping the industry specifics both during the Soviet era and afterwards, during the transition period. This factor has contributed to challenges faced by market players after "Perestroyka".

World War I saw a conclusion to the centralization of production, which destroyed remaining small bakeries that did not meet the centralized economic policies. After World War II, the strategic role of bread supply increased and, hand in hand with the centralization, led to the formation of regional bakery markets. Thus, the industry became represented by centralized production centers operating on the regional basis. This regional orientation, in turn, had a role after the "Perestroyka" in helping many local producers to survive, as large national players did not immediately win the market.

The bakery industry in Russia has always been organized on a geographical basis despite its centralized planning system. From the beginning of the Soviet era until 1992, all bakeries were parts of territorial industry communities. During 1992-1993, they were all privatized and established as separate enterprises. Nevertheless, the markets are still regional and most competitors try to place their manufacturing as near the distribution channels as possible.

After privatization in early 1990s, 20 separate bakeries and confectionary organizations were formed in Saint Petersburg and twice as many in Moscow. None of those enterprises had a real brand identity or a brand name: large-scale bakeries were mainly distinguished numerically. However, some of them had a specific product range and thus a loyal customer base that linked their products with the name of the producer. It can be argued that suppliers were mainly production-oriented, instead of focusing on customer needs.

The role of such supplier orientation in Russia during the Soviet time has been highlighted in the existing literature (Farley & Deshpande, 2005), while a shift to customer-oriented practices started after the collapse of the Soviet Union. Higher uncertainty and the need for adaptation and mutual planning have forced the firms to seek cooperation partners and adapt mutually by adjusting their planning approaches (Johanson, 2007). But even until now, "despite recent positive developments in the Russian market, the heritage of the centralized planning oriented command economy is still evident" and has an impact on inter-firm relationships along the demand chain (Lorentz & Ghauri, 2010, p. 243).

Due to a regional nature of the industry organization, no inter-firm relationships in the industry were developed until the launch of the "perestroika" in 1990s (Kyj & Kyj, 2010). It can be explained by the fact that the plan-oriented economy was changing, thus leaving less space for supply orientation. All players had to survive in the new economic conditions and, being competitors, they had to cooperate to achieve several common goals.

The industry has suffered a dramatic decrease in production volumes in the last 20 years. Producing 18.3 million metric tons in 1990s, the bakery industry has faced a decrease by 10 million in 10 years. Thus, production volumes were just 8.3 million tons by 2000, and continued decreasing over the next decade to stand at 6.9 million tons by 2010. Production volumes continue to decrease by 1.5-3% annually. The industry return on investment is not higher than 2.5-3%, compared to 13.8% for the US economy in 1990-2006 (Porter, 2008; Grundy, 2006).

The scheme of industry evolution presented in Figure 4 was built on the basis of critical events and milestones, highlighted by industry representatives during the data collection phase. They indicate what have been the drivers supporting strategic choices made by the firms in relation to cooperation, competition and building vertically integrated hierarchies via mergers and acquisitions. These examples, in other words, illustrate the drives, guiding the firms to select the governance mechanisms among market, hierarchy and interaction. We have classified them as favorable or unfavorable drivers for the industry attractiveness (Porter, 2008).

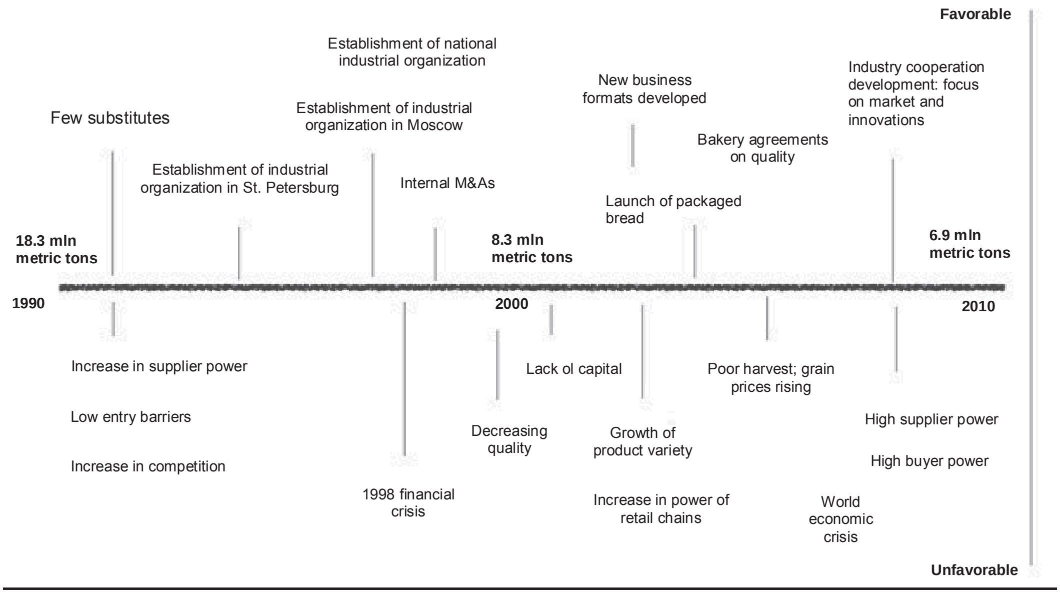
3.1.1. Threat of new entrants

The transition to the market economy paved the way for both new regional and international market players to enter the market. Together with the decentralization effect, this resulted in a strong increase in competition. Standardized nature of most production in the early 1990s meant that customers could easily switch to other products. The first industrial organizations were founded in 1990s – these included the industrial association in Saint Petersburg, followed by an association in Moscow and a national association. A wave of mergers and acquisitions in turn lead to the creation of leading producers, accumulating a large market share. After the financial crisis of 1998, multiple new business formats appeared, contributing to the industry diversity. A decrease in product quality in mid-2000s provided room for multiple small market players. However, already in the second half of the 2000s the national market was formed, leading to the emergence of national market players.

3.1.2. Bargaining power of suppliers

Demand for capital investments in the industry is enormous. The problem of obsolete equipment first appeared in 1990s. Nowadays, the degree of equipment obsolescence is about 65-70%. Many industry players are facing a shortage

Figure 4: Russian bakery industry evolution (1990-2010)



of resources to invest in equipment renewal and innovations, considering that most market players have exceeding capacities due to historical factors. Equipment represents a large part in the investment programs of market players, thus making companies price sensitive. Growth in the grain prices has also contributed to weakening the positions of industry players.

3.1.3. Bargaining power of buyers

As the government still positions bread as a "social product", it continues regulating bakery industry prices. Together with the pressure coming from retail chains, this is one of the negative factors for the industry development. Retail chains represent a growing power in the Russian economy, and many of them offer their own bakery products.

Rising customer expectations demand product innovations, introduction of premium quality products, expansion of product lines, growing demand for freshly baked bread, bread for consumers with special dietary requirements etc. Indeed, in the Moscow market about 15% of daily consumption is represented by added-value bakery products, mostly product with healthy ingredients. This trend is particularly important, in the light of a general decrease in demand for bread and dramatically falling production volumes.

3.1.4. Threat of substitutes

Threat of substitutes was not very high in 1990s. The 1998 economic crisis resulted in the development of new business formats and a severe product quality decrease, leading to increased industry cooperation and agreements on quality control. During this time, stronger market players were able to strengthen their position and improve customer loyalty.

Nowadays, while 75-80% of the national market is represented by larger market players, a growing trend sees the emergence of small innovative bakeries. These, as well as larger innovative companies, are following the demand for a healthier, differentiated product range. One of the largest industry innovations in the Russian market was the introduction of packaged bread by Fazer in the north-western part of Russia. Particularly strong growth of product variety started after 2000, leading to a change in perceptions and expectations of customers. There are hardly any high switching costs for customers nowadays, challenging market players and making them become more market- and customer-oriented.

3.1.5. Rivalry among competitors

Competitive forces contribute to the nature of competition in the industry and to the industry attractiveness. Rivalry between current industry players can be analyzed not only from the angle of rivalry intensity, but also with regard to the basis on which they compete (Porter, 2008).

Decentralization in 1990s led to weakening competition in the industry. However, a subsequent industry development resulted in strategic decisions related to selecting not market so much as hierarchy- and network-based governance mechanisms. Thus, following intensified competition in 1990s, a wave of internal mergers and acquisitions took place by 1995, on the one hand. On another hand, an alternative strategy was presented the by emergence of market-oriented intra-industry cooperation in 2000s. This trend towards industry cooperation, however, was not universal for the national market, but was rather typical for the Saint Petersburg region.

The economic crisis of 2008 had a positive impact on the company choice of the networking governance mechanism, leading to new forms of cooperation, including collaborative innovations and joint product development, co-branding practices etc.

Thus, we can argue that not only intensity, but also the basis of competition in the industry has changed over the last two decades. Transformation of inter-firm relationships in the industry was closely related to changes in the strategic orientation of market players, shifting from a supplier to a market orientation, and linked to the choice between the market, interaction and hierarchy governance mechanisms.

While a plan-oriented economy lead to supplier orientation, with a shift to a market–oriented economy the orientation of companies also changed, influencing existing forms of cooperation. Results of data analysis indicate that with economic instabilities in the 1990s the main forms of inter-firm relationships were used to either attract investments or to represent industrial companies' interests towards authorities and natural monopolies in court proceedings. In other words, cooperation was aimed at increasing the bargaining power of industry players. Furthermore, with a growing power of consumers and, thus, retailers, industry players turned to more market-oriented cooperation forms, including marketing and brand cooperation, as well as special products co-production. Moreover, the entry of foreign market players and resulting cooperation with foreign companies also had an impact on the emergence of new forms of inter-firm relationships. For example, the introduction of packaged bakery goods (by Fazer together with Khlebniy Dom) made national competition possible by prolonging the product life and extending the sell-by date. Another driver of inter-firm relationships development was the economic crisis, causing a new wave of cooperation development as companies faced new challenges in all economical changes.

Probably one of the most important findings though is that, while similar forces had an impact on the industry nationwide, there were very different outcomes for the industry evolution. Thus, two regions under examination in this study led to different outcomes for the industry landscape which are going to be discussed in detail in the next two paragraphs.

3.1.5.1. Saint Petersburg market

Industry development in the St. Petersburg region has resulted in a highly concentrated industry structure. There are three main market players in the market (see Table 2), holding about 70% of the market share. During a wave of mergers, most companies gathered under one corporate brand, but some of the smaller companies' brands still remained in the market (mostly, under agreements of brand-cooperation), while some left the market.

The Saint Petersburg market is highly innovative. Instead of producing standardized products only (there are some types of products well-known by consumers, which were previously produced by regional bakeries, all using the same technology), companies are fighting for customer loyalty, trying to introduce new products. But as their technology base is quite similar, all innovations are quickly copied by competitors. Some companies have specific technologies, providing motivation for subcontracting relationships with one of the leading producers and production under their brand. It is a good solution for smaller companies as well, since they constantly need to load their capacities.

This interdependence might also mean that companies realized there was unwillingness to compete strongly in the market, so they tried to cooperate in some areas of business, while staying in competition with others. It is mostly seen in new specific product development areas, requiring an innovative approach, non-customary ingredients and specific equipment. Such dependence can be highlighted by the answers of our respondents:

"It is normally working, when a big company does not have any specific equipment, or it doesn't produce any niche products. Then, they try to cooperate with smaller firms, specializing in a small range of innovative products, with ingredient suppliers," (Director of a Saint Petersburg-based industrial organization).

Table 2: Saint Petersburg bakery market

Group/ company	Main corporate brand	Main companies in the group	Brands	Market share
Fazer	Fazer	• Khlebniy Dom • Murinskoye • Khlebozavod Vasileostrovskogo rayona • BKK Neva	o Khlebniy Dom o Khlebozavod Vasileostrovskogo rayona	35%
Karavay	Karavay	• Karavay • Zarya • Kushelevskiy khlebozavod • Nevskaya Sushka • Kronshtadskiy Khlebozavod • Rzhevka-khleb	o Karavay o Zarya o Nevskaya Sushka	25%
Cheryomushki	No corporate brand	• Pervoye khlebopekarnoye ob`edineniye • Khleb (Darnitsa) • Pekar • Khlebokombinat Lana • Sestroretskiy Khlebozavod	Darnitsa Pekar Sestroretskiy Khlebozavod	10%
Petrokhleb	Petrokhleb	All bakeries from the Liningradskaya Oblast region	Petrokhleb	7%
Khlebniy zavod Arnaut	Arnaut	Khlebniy zavod Arnaut	Arnaut	5%
Ochtinskoye	Ochtinskoye	Ochtinskoye	Ochtinskoye Aladushkin	8%
Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	Baltiyskiy khleb	
Bushe	Bushe	Bushe	Bushe	

"Yes, we invested a lot into our ingredient supplier. We needed specific technology which did not exist in Russia. So, we developed it together. And since then, we have had strong lasting relationships with our suppliers," (General Director of "Khlebniy Dom").

Moreover, market players are interested in marketing cooperation, such as, co-branding practices, in order to outperform competition and meet consumer expectations: "Brand cooperation is really important now, when we consider consumers. I mean, consumers want more and more, they want new innovative products, specific technologies etc. On the other hand, they prefer their brands and are quite loyal to what they use. That is why we use brand cooperation for our innovative products, which we produce with our partners," (Commercial Director, Cheryomushki)

Indeed, current situation in the bakery industry is characterized by increasing power of retail chains, frequently supported by the introduction of private labels and, thus, leading to increased competition. Distributors force producers to sell their products under private labels. Moreover, retailers use private label co-branding, putting the original product and producer's name on the packaging, which is very unfavorable for the producer because of intensified competition. Otherwise, when a producer rejects such an offer, it is very simple for the retailer to terminate the relationship and find another contractor, eager to work under suggested conditions.

As the research findings indicate, industrial cooperation helps market players to work against this type of unfair competition. Moreover, cooperation has significant importance in defining the market situation. A crucial role is played by the industry association, founded in 1993, at the very beginning of the transition process. Its main goal is to represent industry interests in court proceedings against authorities and natural monopolies.

Several intra-industry infrastructural projects were initiated by the association: an insurance company, a retirement fund, a leasing company, an accounting subcontractor, a subsidiary of an independent registrar etc. With the development of financial markets, however, these intermediaries have lost their relevance for the industry, and now association deals mostly with pricing and ethical behavior issues through implementing a coherent strategy towards negligent contractors and distributors practicing discrimination against the producers. The industry association is currently developing its own trademark to have a sign of quality proof in the region. By now, however, only small producers are interested in such cooperation with the industrial organization.

3.1.6. Moscow market

The Moscow bakery market is much more competitive than the Saint Petersburg one, as a lot of the bakery products sold in Moscow are produced in other regions and regional manufacturers can hardly cope with the competition. Being stuck in price wars, they permanently fight for governmental orders. The product quality on this market is also worse than in Saint Petersburg.

Inter-firm relationships are less developed in Moscow than they are in Saint Petersburg because main players are vertically integrated structures, less interested in any form of cooperation.

Currently, there are 153 bakeries operating in the Moscow market, including 18 large–scale producers, holding more than 60% of the market share. Historically, most large-scale bakeries belong to the vertically integrated milling companies, the biggest of which is "Nastyusha", holding about 35% of the market. "Nastyusha" needs to distribute the flour and make the bakeries compete for big government orders, forcing them to save on quality as much as possible.

In the Moscow market, producers compete for the big orders to load their capacities; in Saint Petersburg, they try to fight against governmental dumping strategies through cooperation.

Since the economic situation changed to include more market-oriented conditions, competition has increased significantly, causing several qualitative changes in the industry and being significant for all players operating in the market. However, as industry analysis and interview results demonstrate, market players in Moscow have selected a market or hierarchy governance mode, based on competition and an opportunistic approach, compared to a cooperative mode in the Saint Petersburg market. For example, the Commercial Director of "Cheryomushki" (Moscow) suggested: "We compete with everyone. We compete with other players, we compete with our suppliers, we compete with retail chains on private labels etc. On the other hand, we always try to find possibilities to cooperate on some deals with our stakeholders."

Analyzing the most frequent concepts discussed by interviewees, we observe a distinct difference between Saint Petersburg and Moscow markets. Stronger competition and, thus, a greater significance of governmental orders in Moscow cause lower product differentiation and, as a result, a higher threat of price competition. Moreover, Moscow respondents mentioned more frequently that they had not experienced any qualitative changes in the last 20 years, and that competition is much stronger in their region than in others. Operating with no cooperation, they suppose all players to be competitors.

3.2. Regional differences in industry evolution

Identified differences have been shaped by similar driving forces existing in the market during the transition processes, but resulting in different strategic choices by market players. Development of closer cooperation in the industry appeared in Saint Petersburg earlier than in Moscow, and that difference in the level of industry cooperation has not been compensated by Moscow market players until now. The cause of this variance can be explained by different consumer preferences, existence of vertically integrated structures, holding more than a half of the market share and supporting supplier orientation of the firms. Our data, collected during the interviews, illustrates such a situation.

"In Moscow, most of the bakery business is held by milling companies. Thus, bread producers are forced to align with their strategy. And this strategy does not mean innovation or cooperation; milling companies need mill distribution systems and bread producers to compete for government orders by dumping prices. Most of them don't have a marketing department at all – they just don't need it," (Commercial Director, "Cheryomushki", Moscow)

Despite the fact that all players had to survive in new economic circumstances and, being competitors, they tried to cooperate to achieve several common goals, Moscow and Saint Petersburg respondents have highlighted different key concepts related to the industry evolution.

There were some concepts, similarly highlighted by representatives of both regional markets. Concepts, frequently mentioned in the interviews, can be used to describe the industry itself (Shapiro & Markoff, 1997). Such concepts give us an overview of contemporary challenges, faced by industry players.

Based on the analysis of the interviews, we can state that the market has faced increasing competition over the years of transition to the market economy and entry of new market players, as well as consumer expectations growth. Both markets were forced by the industry evolution to develop distribution strategies, thus forcing the firms to turn away from a production orientation to the market.

However, the Moscow market is much more characterized by price competition and a focus on standardized production, while respondents from the Saint Petersburg market highlighted the need for innovations and joint product development with partners as part of cooperative actions. Different strategies result in a greater product variety in the Saint Petersburg market.

"We work together both in Saint Petersburg and Moscow. These markets are absolutely different. It's absolutely impossible to compete with Moscow producers with standardized products – their prices are extremely low. We can only sell our new innovative products there – Moscow producers are not interested in that kind of business," (General Director, Khlebnyi Dom).

We see that Saint Petersburg producers are not only influenced by their own regional market situation, but they also consider the trends and company strategies in the Moscow market. The strategies, highlighted by Saint Petersburg respondents – a focus on innovations and consumer demand, seem to become strategically important for them to compete in both regions. Moreover, Saint Petersburg interviewees testify to a substantial evolution of cooperation in the industry, contributing to the expansion of the forms of intra-industry cooperation, including such forms as ingredients production, brand cooperation and lobbying against the hostile development of retail chains' power.

Table 3: Differences between the markets

	Moscow market	Saint Petersburg market
Market concentration	Low (60% of the market belong to 18 producers)	High (70% of the market belong to 3 producers)
Competition	Extremely high (price wars, fight for governmental orders)	Moderate (powerful industrial organization, willingness to cooperate)
Innovativeness	Low (standardized goods for governmental orders)	High (new products launched every month)
Manufacturers' bargaining power	Extremely low (high retail chains power, high milling companies' power)	Low (high retail chains power)
Industrial cooperation/ Network-based governance mechanism	Low (competition for big orders) & vertical integration	High (subcontracting, marketing cooperation, co-branding)

"There is no such term as 'cooperation with retail'. As producers, we fight for everything – the assortment, prices, delivery and payment terms. Here (in Saint Petersburg), our industrial organization is a real help."

At the same time, Moscow respondents do not report that industry structure or cooperation is changing over time in any way; the nature of industry cooperation in Moscow is still limited to subcontracting.

These trends and evolution in the industry are resulting in a quite different market landscape of the bakery industry in Moscow and Saint Petersburg. Identified differences between the markets are highlighted in Table 3.

4. CONCLUSION AND DISCUSSION

Based on the industry analysis and insights from the interviews, we can witness how the market has been evolving over the 20 years of transition. In a certain way, firms were opting for alternative approaches to reduce the uncertainty of business and regulatory environment. On another hand, firms were optimizing transaction costs via stabilizing market landscape. The evolution path or trajectory should, theoretically, reflect choices made by a firm governance mechanism during the transition process – either a market, interaction/network-based one or a hierarchy-based one.

Our research constraints echo the work of Farley et al. (2005), Johanson (2007) etc., enriching the existing limited stock of knowledge on current condition and context of Russian inter-firm relationships. Analyzing the market, we found that, despite rising competition, cooperation plays a crucial role for the companies; moreover, they are constantly searching for balance between cooperation and competition.

Indeed, as Porter (2008) said, industry change provides opportunities to be spotted and potential strategic positions that could be selected based on understanding the nature of the change. Thus, *"structural changes open up new needs and new ways to serve existing needs; established leaders may overlook these or be constrained by past strategies from pursuing them" (Porter, 2008, p. 90). Thus, driven by the same forces, industry rivalry has undergone different transformation in two regions, resulting in two distant market landscapes.*

Current business environment in the industry evolution has led to the development of organizations where firms cooperate and compete simultaneously (Brandenburger & Nalebuff, 1996). Although the concept of co-opetition has met sustainable critique (Armstrong & Clark, 1997), a number of authors (Brandenburger & Nalebuff, 1996; Lado, Boyd & Hanlon, 1997; Gnyawali & Madhavan, 2001) have recently emphasized the increasing importance of co-opetition for today's inter-firm dynamics.

Most inter-firm relationship forms in the market can be evaluated as an enforced response to market challenges. Companies get involved in subcontracting agreements, collaborative innovation projects and other forms of inter-firm relationships since they all face increasing competition and growing customer expectations simultaneously with exceeding capacity and highly standardized product lines.

We found that the current stage of inter-firm relationship development is different in two biggest Russian cities: Moscow and Saint Petersburg. The Moscow market is much more competitive: due to historical development producers compete for big orders to load their capacities; in Saint Petersburg, they try to fight against governmental dumping strategies through cooperation.

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

Firstly, the concept of increasing competition was mentioned by all interviewees. We also discovered several influential market trends, such as the need for innovations, consumer expectations growth and bread consumption decrease etc., which force companies to cooperate. Accordingly, we observed the co-existence of competition, and cooperation among industry players. The type of cooperation, though, has constantly been changing, including such forms as subcontracting, distribution system, ingredients production, brand cooperation, government relationships, joint product development. We also confirmed our suggestion about industrial differences in Saint Petersburg and Moscow. The main differences between the two regions, as mentioned by the respondents, were in the level of competition, product variety and consumption cultures. Nevertheless, the strongest influence on the difference was found in the nature and forms of cooperation.

Tracing the development of inter-firm relationships, we conclude that the main driving force of inter-firm relationships in the industry is the changing strategic orientation of the firms in the market. While the plan-oriented economy led to supplier orientation, the shift to the market economy also changed existing forms of cooperation and offered a strategic choice to the market players in different regional markets. In the 1990s, due to an unstable economic situation, the main forms of inter-firm relationships were used to either attract investments or to represent the interests of the companies in the industry in court proceedings against authorities and natural monopolies, thus compensating for market inefficiencies and representing the "institutional pull". Further on, with the growing power of consumers and, thus, retailers as well, industry players turned to more market-oriented cooperation forms, including brand cooperation and special products co-production. Probably one of the most interesting results, supporting a heterogeneous nature of emerging markets, is that despite 20 years of transition, markets which were historically organized on the regional basis have become substantially different in terms of the nature of the market, including the role of competition and cooperation, market strategies and their strategic choice on the whole. In other words, by responding to the same changes in the institutional environment, the firms in two regions have selected different modes of behavior, resulting in a substantial modification of the market landscape.

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