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**Importance of networks for International New Ventures entry to
Russian and Ukrainian steel industry market.**

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Subject International Business Management	Type of the degree Master of Science	Time of publication April 2014	Number of pages 108
Abstract <p>Networks and their role in internationalization process of International New Ventures (INVs) are believed to be of high importance. Entry to emerging markets, where network ties are considered to be a great success factor, enhances the significance of network ties, especially for young firms.</p> <p>The purpose of this Master's Thesis was to study establishment of network relationships and securing right position for International New Ventures in existing networks of Russian and Ukrainian emerging markets. Particularly, steel industry in Russia and Ukraine was selected as a context of the study.</p> <p>Qualitative approach was chosen for this research and empirical study was carried out through semi-structured interviews. Themes for the interview were indicated in relation to covered literature and theoretical constructs. Representatives of eight companies within Russian and Ukrainian steel industry network were interviewed. Selected sample consisted of companies that vary in specialization and size, which allowed to collect responses from different perspectives. Data, obtained through interviews, was first analyzed separately in relation to outlined themes. Then, conclusions were drawn by aligning theoretical constructs with empirical findings.</p> <p>The results indicated that while network ties indeed play an important role in partnership establishment and securing position on target emerging market, they do not serve as a guarantee of desired spot in desired network. Presence of newly internationalizing firm in right network undoubtedly helps to operate in the emerging market and obtain customer base faster, however factors like quality and favorability of products, price, warranty conditions and time of delivery were found to be of greater importance to successful market entry. Penetration to target network requires combination of proactive and reactive measures of internationalizing firms, including exploitation of different channels.</p> <p>Based on the findings of the study, propositions for INVs management were given at the end of the thesis. Main contribution of the study is combination of network theory and INVs internationalization in relation to emerging markets. It was concluded that internationalizing firm should rely on the product and value it has to offer for target market. Being entrepreneurial in its nature firms can benefit from flexibility and seek for arising opportunities in desired networks, while maintaining the existing ties.</p>			
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Additional information			

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1 INTRODUCTION

According to network theory, markets are depicted as systems of relationships among a number of players including customers, suppliers, competitors and private and public support agencies (Coviello and Munro, 1995). International New Ventures (INVs) that aim to enter foreign markets and strive to gain a competitive position in new ecosystem often rely on existing partnerships, previous experience (Sharma and Blomstermo, 2003) and managerial networks (McDougall, Oviatt and Shrader, 2003). Networks and firm's position in market network play crucial role in INVs internationalization process on several levels. Johanson and Mattson (1988) suggest that a company's success in entering new international markets is bound to its position in the network and relationships within current markets than on market and cultural characteristics. Sharma and Blomstermo (2003) imply the benefits of networks as a source of information to firms, since the same information may not be available to everyone; the speed how the information obtained is directly related to the speed of firm's potential internationalization.

Steel industry in Russia and Ukraine is taken as a context of current research for multiple reasons. Operational environment and market potential of industry in selected areas are found to be the most attractive in the Central and Eastern Europe, due to the rich natural deposits and high production volumes of steel. However, formal and informal institutional constraints associated with those markets create barriers for internationalizing firms and push them to establish relationships with local partners in order to ease the entry process. Ellis (2000) found that "social bonds play an important role when conducting business with emerging economies, where contract law and property rights are not well established" suggesting the importance of the network approach.

Due to social and political settings in Russia and Ukraine, constant transition and change of operational practices and rules creates considerable constraints for new market entrants. Partnerships and business ties with local companies can possibly serve as benchmark to understanding and adaptation to such turbulent environment. Network and reputation have positive impact on both prosperity to turn international

as well as the speed and the extent of the internationalization (Zahra, Ireland and Hitt, 2003). For some of the companies it has been of the utmost importance to have good relationships within the industry to get any enquiries in the first place (Rundh, 2001). In selected context, good reputation and good position within the network can play a crucial role for firm's internationalization and survival on target market.

1.1 Research Problem and Goal

Network perspective on internationalization was found to be common pattern among small firms by numerous scholars (Johanson and Mattson, 1988) (Johanson and Vahlne, 1992) (Coviello and Munro, 1995), however, in the context of Russian and Ukrainian markets, network position may play a crucial role. For example, Longenecker (2001) discovered that connections and personal contacts in Russia were the most desired and needed skills; companies lacking this competence had higher risk for "managerial failure".

To understand the importance of networks is one thing, but the other one is to understand the establishment of relationships and securing right position in existing networks. The problem that small outsider firms entering steel industry in Russia and Ukraine face, revolve around evaluation and integration into right existing networks/ecosystems. Finding the right channel to enter target network is also quite problematic for companies coming from outside. Stated problem exists in practice as potentially attractive Russian and Ukrainian markets were numerous named "challenging" due to the role of proper connections. Being a part of network, a firm can be represented in a positive light, at the right time and in the right place. In operational settings of selected markets – Russia and Ukraine, networks play an important role, especially on the early stages of the market entry. The goal of research is to examine how INVs can approach potential networks and build proper relationships during the early stages of market entry process.

Network and reputation have positive impact on both prosperity to turn international as well as the speed and the extent of the internationalization (Zahra et al., 2000). This study could be useful for management of INVs to get a better understanding of network positions during international market development. Most importantly, the

study could show how and with whom the relationships should be built, depending on the nature of INV and industry.

Steel industry by its nature is based on either business-to-business or business-to-government relationships; therefore the establishment of networks with potential partners, in face of private or governmental institutions, has a direct effect on firm's performance. Russian and Ukrainian markets are also referred as emerging economies. This means that overall business environment is oppressed by transition of power; rules and regulations in those countries are not perceived and imposed as strictly as in European countries.

Even though the importance of networks has been covered by several scholars in the last decades (Johanson and Mattson, 1988) (Johanson and Vahlne, 1992) (Coviello and Munro, 1995), there has been little to no research conducted related to the context of current study – steel industry sector in Russia and Ukraine. Sandberg (2013), particularly, suggests that the difference in institutional contexts between INVs home and host market should be studied extensively to understand the embeddedness of business relationships.

Conviello and Munro (1995) in their study primarily focus on network as a growth opportunity for entrepreneurial firm. Authors suggest that further research on network phenomenon should be focused on early network partners and their influence on the firm's internationalization process, particularly in areas of market development and marketing activities. Since current study is based on entry event to foreign markets, the research gap suggested by Conviello and Munro (1995) is suitable.

1.2 Research Questions

Subject of the research is INVs network integration and exploitation during international entry in the context of steel industry in Russia and Ukraine. The aim of the work is to provide framework for potential partner evaluation and relationship establishment of INVs during its entry to international market, in current case – steel

industry in Russia and Ukraine. To achieve set goal, the main research question should be stated:

*How INV can establish and utilize network relationships during international entry?
(In the context of Russian and Ukrainian steel industry)*

In order to answer the main research question in well-structured manner, it is necessary to break it down into sub-questions, consequently breaking down the study according to sub-questions logic. First sub-question is aimed to investigate the diversity of existing actors in Russian and Ukrainian steel industry networks. Through answering this question, the researcher aims to obtain knowledge on existing actors within selected context. This would help not only to answer the primary research question, but also depict a sample for empirical study.

SQ1: What are the existing networks in Russian and Ukrainian steel industry?

The second question is aimed to investigate the way prominent actors within the network operate and establish their partnerships with new/foreign entrants. Combination of theoretical constructs with information obtained through data collection is expected to serve as a basis for the answer to the following question.

SQ2: What are the ways existing network actors in Russian and Ukrainian steel industry establish partnerships?

1.3 Research Structure

This research starts off with introducing the selected topic and explaining the motivation behind the study of the topic around specific context. First chapter serves a role of introduction of upcoming work and presents research problem and goals. The research question is stated and justified in introductory chapter, as it helped to build and maintain the structure of the whole work. Research structure is also presented in first chapter, in order to guide reader through the work consistently.

The second chapter is dedicated to selected context of the study – steel industry in Russia and Ukraine. This layout was followed to introduce the reader to operational

business environment in emerging economies, as it has a significant impact on studied phenomenon. Steel Industry, in particular, was selected due to its high potential in the region and high interest from foreign companies (INVs). The chapter is designed in a way that first it opens up on the traits of business environment in emerging economies, later on leading to characteristics and trends in steel industry in two countries – Russia and Ukraine.

The third chapter is dedicated to theoretical background of the study. Considering the relatively wide range of covered theoretical concepts, the chapter may have quite heavy structure. However, the interconnectedness between covered topics appeals for covering them extensively under that same chapter. The third chapter starts with an excursion on network theory and related subtopics – type of network ties, advantages and disadvantages of belonging to a network, which highlight the most important aspects for the current study. Following the network theory, the internationalization process of International New Ventures is described in detail along with reasoning for the specific approach towards the process. Relevant and key elements of INVs internationalization, such as network relationship development and selection are provided in posterior sub-chapters. In the end of the chapter the importance of network in emerging economies, which are chosen as a context of current study, are specified.

The fourth chapter is presenting the research methodology, explaining the preparation and execution of empirical study. It points out selected themes for data collection and provides description how it was carried out. An introduction of interviewed companies and analysis of obtained information is presented in the following fifth chapter of the work.

Final chapter of the work combines the theoretical construct with obtained results of data collection and analysis in order to provide answers to earlier stated research question. Theoretical and managerial implications are also presented in chapter six. A critical outlook is given to research validity and reliability as the chapter follows and it is finished with limitation to the study and suggestions for the future research.

2 STEEL INDUSTRY IN EMERGING ECONOMIES

2.1 Business Environment in Emerging Economies

Internationalization and fast growth of social and business activities characterize the conditions of nations, known as emerging economies. Usually, this growth and development arises due to transition from one kind of economy to another, in result the markets that experience this transition are called either transition or emerging markets.

Emerging economies, due to its rapid growth hide a lot of opportunities and, therefore, appear to be attractive spot for business opportunities and foreign investment. Along with commercial appeal, those markets also hide significant challenges and threats, due to increasing uncertainties caused by transition. Commonly the attractiveness of those markets and the potential that they hide leave businesses no choice, but to undertake the risks and attempt to overcome the constraints. Biggest challenges arise within emerging economies business environment due to the changes in its institutional framework. Institutional framework - “rules of the game in a society, or humanly devised constraints that shape human interaction” (North, 1990) - affects management of foreign business operations (Meyer and Peng, 2005).

Institutional framework within any country consists of formal and informal conditions, which are perceived as constraints by outsiders, as they have to learn their ways to adapt their strategic choices and management in order to fit in. Formal institutional constraints include political rules, judicial decisions, and economic contracts (North, 1990). The constraints are closely related to formal institutions and their interactions with other organizations in the country.

Formal institutional constrains consist of the compound of economic, legal and political condition in the country. One country’s attractiveness for investments is often determined by its economic conditions. Emerging economies are often defined by common features, such as high rates of inflation, foreign trade deficits, high rate of unemployment, presence of small elite urban market and large low-income

market, high level of indirect taxation, high import duties, high costs of capital and low labour cost, inadequate logistics infrastructure (Batra, 1997).

Business operation in the market are highly influenced by legal conditions, in more details by governmental protectionism: limited trademark and patent protections, judicial system, restrictions for foreign investment, price control, tariff and non-tariff barriers, trade agreements, privatization, market reform and many more (Kouznetsov, 2009). Legal conditions in emerging economies can be offsetting for businesses that fear takeover of competent knowledge and piracy, since trademark and intellectual property protection are quite limited and underdeveloped in those countries. Despite the constant evolution of legal system in emerging economies, it still conceals potential risk for doing business in those markets (Kouznetsov, 2009).

Political conditions are commonly instable in emerging markets, as earlier stated, due to the constant transition process. It is caused by the fact that previous institutions slowly lose the grip of the power, while the new ones have not yet taken over completely. Corruption, common notion in emerging economies and even considered to be a political condition, restricts the fair business development, though its influence is quite critical and hard to measure and it can be political and social factor at the same time (Kouznetsov, 2009). Small businesses were found to be more prone to undergo corruption practices within emerging economies, as their recourses constraints make them vulnerable targets, which makes environment on those market quite undesirable by foreign entrepreneurial firms.

Informal institutional constraints include socially sanctioned codes of conduct and norms of behaviour, which are embedded in culture and ideology (North, 1990). Cultural and social conditions together with a state of technology and infrastructure serve as informal determinants and constraints within emerging economies. While culture usually has no crucial effect for business operations in any markets, social and political condition in emerging markets are closely related, due to well established bureaucratic practices through various levels of social interactions and as earlier stated - corruption, which is known to be imbedded in social aspects (Kouznetsov, 2009). Commonly, opportunities and potential in emerging markets outweigh cultural and social peculiarities.

Infrastructure and technological conditions also experience transition and steady development in emerging economies. However, the stages and pace of development within the borders of one country may vary drastically, depending on the amount of investment the area receives. In emerging markets, local firms often do not have advantages such as competitive technology, recognized brand name and quality product (Kouznetsov, 2009), which gives foreign businesses a variety of entry strategy and mode choices.

2.2 Steel Industry in Emerging Markets

Focus of current work is stressed on the operating environment in steel industry of two selected countries – Russia and Ukraine. The choice of such context and region can be explained by high potential of the sector and considerable output of crude steel production: 70,4 million tons in Russia and 33 million tons in Ukraine (WSA, 2012).

Crude Steel Production	2011	2012	% Change	%Share
China	702	716,5	2	46,3
EU27	177,7	169	-5	10,9
Japan	107,6	107,2	0	6,9
United States	86,4	88,7	3	5,7
India	73,5	77,6	6	5,0
Russia	68,9	70,4	2	4,6
South Korea	68,5	69,1	1	4,5
Turkey	34,1	35,9	5	2,3
Brazil	35,3	34,7	-2	2,2
Ukraine	35,3	33	-7	2,1
Taiwan	20,2	20,7	2	1,3
Mexico	18,1	18,1	0	1,2
Iran	13,2	14,5	10	0,9
Canada	13	13,5	5	0,9
South Africa	7,5	7,1	-6	0,5
Others	75,2	71,8	-4	4,6
Total	1536,2	1547,7	1	100

Table 1. Top 15 Crude Steel Producers, in million metric tonnes (World Steel Association, steel Statistical Yearbook 2013).

Russian and Ukrainian markets are characterised as emerging ones, due to the conditions and peculiarities in their operating environments. Steel industry development plays significant role in economic and infrastructure development in

selected countries and often serves as an indicator of economic progress. Considering its multiplicity, the whole industrial complex varies greatly from one state to another depending on country-specific conditions. To describe the current state and operating environment in Russia and Ukraine, the following key points will be covered: key market players, trends in pricing, distributions and technology, end users, market drives and industry challenges.

2.2.1 Steel Industry in Russia

Rich metal resources, deposits in Urals, East Siberia, Kola Peninsula, Far East and near-Arctic Circle region formed a competitive advantage for Russian steel industry development (Frost and Sullivan, 2011). Mining and metallurgy that have become traditional are believed to be one of the most prospective industries in the country, which is why Russian government devotes a lot of attention and resources on the development of industry. Steel products market is based on two segments: Flat Rolled Product and Long Product, which are sold to the end users (Frost and Sullivan, 2013).

Russian steel market is dominated by six companies; all of those are vertically integrated corporations. Leading companies have deposits of iron ore and other resources as their possessions and also own downstream steel processing facilities in different locations (Frost and Sullivan, 2011). World Steel Association also lists all six among world's largest steel producing companies:

- Severstal – joint-stock company, mainly focusing on crude steel production. Owns industrial facilities in Russia, Ukraine, Kazakhstan, France, Italy, United States and several African Countries.
- Evraz – initially founded as metal trading company, but has grown and taken over operations like crude steel production, mining and still controlling some metal trading and logistics assets. Company is operating in Russia, Ukraine, Czech Republic, Italy, United States, Canada and South Africa.
- Novolipetsk Steel (NLMK) – Joint-stock crude steel producer, with assets in Russia, United States, Germany, France, Belgium, Italy, Denmark, Switzerland and Cyprus.
- Magnitogorsk Iron and Steel Works (MMK) - joint stock, export oriented crude steel producer, operating in Russia.

- Metalloinvest – producer of niche steel products, operating in Russia and UAE.
- Mechel – mining and steel producing company, operating its facilities in Russia, Lithuania, Kazakhstan, Bulgaria, Ukraine, United Kingdom and United States.

Along with variety of industrial applications grows the demand for ferrous metals, which results in the steady price increase for steel products (Frost and Sullivan, 2011). This trend has a positive effect on steel industry development as whole and particular companies' manufacturing technologies. To minimize the costs of energy and resources consumption and reduce pollution, major Russian steel producers aim to become more environmentally friendly and try to replace obsolete mills and furnaces, modernize operating equipment and employ nanotechnology to manufacture modern alloys (Frost and Sullivan, 2011). Steel industry in Russia is in need for modern equipment and new technologies. Distribution trends of industry are the following: the majority of raw materials produced in Russia is traded through metal exchange markets and banks; the significant amount of Russian steel products is sold through local and foreign distributors, which create an intense competition among themselves (Frost and Sullivan, 2013). Even though distributors take up a significant share, leading producers also sell their steel products to the end users directly.

Major end users of steel products in Russia are represented in other industries, such as Construction, Pipe-manufacturing, Transportation and other (Frost and Sullivan, 2013). Favourable conditions for construction and transportation industries in Russia enable their steady development, which increases demand for inexpensive steel products within the country. Construction, being a greatest consumer of steel products has shown a rapid growth in recent years and forecasted to continue the likewise growth in upcoming years with the help of ongoing and upcoming projects: Infrastructure modernization, Sochi 2014 Winter Olympic Games, Football World Cup 2018 (Frost and Sullivan, 2011). Transportation is tightly related to construction and mainly based on using steel materials. Other industries, like Aerospace, Energy and Packaging have shown a growing need for steel products, however, many other domestic industries are still underdeveloped due to the lack of modern technology and intense competition of Asian manufacturers (Frost and Sullivan, 2011).

Domestic demand for steel products is relatively small, compared to the rest of the world, that is why Russian steel industry is highly dependent on global market and mostly involved in export of raw materials, selling over a half of steel production to foreign buyers (Frost and Sullivan, 2011).

Country-specific conditions, global trends and factors shaped up quite favourable environment for steel industry development in Russia. Industry is highly supported by government and even given a high priority for future development, even though state policy still lacks proper execution (Frost and Sullivan, 2011). Strong ties with global markets enable industry's prosperity outside the borders and enables steady development along with the growth of demand for its products (Frost and Sullivan, 2011). Russian labour force (numerous and well qualified) and resources (abundant metal, energy generation) are relatively cheap (Frost and Sullivan, 2011), which also adds to the advantages Russian steel industry has at its own use.

Huge potential and numerous opportunities to exploit do not come without downsides and Russian steel industry is not the exception here. Little demand for steel products on domestic markets puts certain constraints and creates challenges for the industry, minimizing its competitive advantage. In chain reaction, the lack of demand leads to the lack of investment for industry development (Frost and Sullivan, 2011). In addition to that, Russian reserves may be enormous, but they still limited and decreasing every year, which boosts the price for the end product. Hopefully, Russian Government initiative "Strategy of Metallurgy Development till 2020" will lead to industry prosperity in a long run, as it is aiming to overcome existing challenges in the following ways (Frost and Sullivan, 2011): modernize processes and equipment on plants, increase export, create domestic demand for metals products through orders from state-owned companies, meet domestic demand for products, support the domestic companies by governmental guarantees, protect the domestic market by duties on incoming goods, develop resource base and exploration projects for industry development.

2.2.2 Steel Industry in Ukraine

The steel industry in Ukraine has the advantage of natural resources, but it is highly dependent on export markets for product sales and it is operating inefficiently due to the lack of technological investments (USGS, 2012). Similar to Russia, the territory of Ukraine is rich in iron ore deposits, which inevitably lead to exploitation of natural resources and development of metallurgy in the country. Historically and geographically, Russia and Ukraine are very close; their political and economic relations have caused hand in hand industrial development. So most of industry features and characteristics are very similar.

The main factors contributing to characteristics and principles of Ukrainian metallurgy development in the last decade began with corporate revolution in steel industry, transition of ownership of strategic companies from government to private sector and the loss of control by state. The impact of this ownership transition is still affecting steel industry itself, leading to the general shake up of Ukrainian economics (Razumov, 2012).

Metinvest is the leading producer of crude steel in Ukraine, it accounted for 41% of crude steel production output in 2010 (USGS, 2012). Metinvest, just like the major players in Russia, is a vertically integrated mining and steel production company that owns 24 assets in Ukraine, Europe and United States. The main manufacturing facilities are located in Ukraine, which allows maintaining a relatively low production cost compared to many competitors in the global steel market. Facilities located near major transportation hubs and ports provide Metinvest with additional benefits in products delivery to customers in Ukraine, European countries, as well as the emerging markets of the Middle East, South East Asia, CIS and China (MetinvestGroup profile, 2013).

Being rich in natural deposits of iron ores, Ukraine is rated as a country with a great potential in development of steel industry. However recent political events in state and technological conditions in the industry are bringing it down greatly. Even though the unit production cost in Ukraine is one of the lowest among other steel manufacturing countries, industry is technologically old fashioned and requires substantial amount of investments for modernization and upgrading; so far a great

amount of production support was done by expansions in electric-arc furnace steelmaking (ECORYS SCS Group, 2008).

Ukrainian steel industry is tightly dependent on export demands, since just like in Russia, domestic demand for steel products is significantly low. Since proclamation of independence of the state, the variety of steel products manufactured in the country has declined drastically; nowadays the main focus is on crude steel and semi-finished products (Razumov, 2012). With the overall restructuring of the Ukrainian economy and its gradual opening up, the sector has become a popular target for foreign investors (ECORYS SCS Group, 2008). Major end consumers of produced steel are, of course, heavy industries: transport and construction (Razumov, 2012), but as it was stated earlier, greater demand comes from abroad.

Peculiarity of Ukrainian steel industry has created certain advantages for future development of the sector, as it appears to be an attractive piece for foreign investment. Being mostly privately owned by few players, the industry is open for cooperation with foreign partners.

To support its competence Ukrainian government strives to support development of an industry, even though the sector is mostly privately owned. This relationship can be described as manipulative one, as government is pushed to adjust the legislation and provide subsidies for the owners, in order to keep the industry running and work force occupied (Legeida, 2002). Despite all the opportunities to exploit and natural capacities that Ukrainian steel industry has to offer, it is rather oppressed by existing challenges, such as outdated technology, underdeveloped domestic consumer market, increasing import of steel products, increasing competition from Russia on CIS market (Razumov, 2012).

3 NETWORKS, INTERNATIONALIZATION OF INVS AND EMERGING ECONOMIES.

Major studies of internationalization see the phenomenon as an opportunity development process and highlight the main drivers of it: networks and entrepreneurial actions. Current chapter provides detailed review of background theories, which are based on proposed drivers. First subchapter is specifically focusing on view that internationalization happens in networks – network theory. It is followed by review of different types of network ties and how they influence internationalization process of young firms and discussion of advantages and disadvantages of belonging to particular networks.

Next subchapter reviews internationalization of small firms as a result of entrepreneurial activity of INVs. Importance of networks in the process is also presented, but, from this viewpoint, as a part of strategic actions of entrepreneurial firms. Network development and partner selection are presented and reviewed in subchapter mostly as means for successful internationalization.

Finally, the last subchapter brings up the role of networks in emerging economies, as important notion in terms of formal and informal institutional norms prevalent in studied region. Common belief of high importance of network relations in emerging economies is reviewed with a help of theoretical studies of phenomenon.

3.1 Network Theory

According to network theory, markets are defined as a system of relationships among a number of players including customers, suppliers, competitors and private and public support agencies (Coviello and Munro, 1995). All the payers contribute to relationship development and may be interconnected with each other through operations or mutual partners. As defined by Axelsson and Easton (1992), a network involves sets of two or more connected exchange relationships. Consequently, a

business network may be defined as a set of connected exchange relationships between firms (Forsgren and Johanson, 1992).

The actors in a network are defined by the activities they perform and by the resources they possess. The co-operation between actors may take different forms, depending on how both can benefit from it. Through exchange processes with other firms' activities and resources, bonds and relationships are created and developed (Bernal and Johnsen, 2002).

According to the Johanson and Mattsson (1988) when a firm starts to develop relationships with another firm that belongs to a network in a foreign country, internationalization of the firm occurs. Johanson and Mattsson (1988) consider business networks as the relationships a firm has with its customers, distributors, suppliers, competitors and government — the actors in a business network. They argue that as the firm internationalizes the number and strength of the relationships between different parts of the business network increases. By internationalizing the firm creates and maintains relationships with counterparts in other countries. This occurs in different ways: first, by forming relationships with counterparts in countries that are new to the firm (international extension). Second, by increasing commitment in already established foreign networks (penetration). Third, by integrating their positions in networks in various countries (international integration) (Johansson and Mattsson, 1988).

Snehota and Hakansson (1995) propose a network model formed by actors, activities and resources, where companies develop networks of relationships through connected activities, linked resources and related actors, all of the elements being interconnected and interdependent. High interconnectedness of actors in a network suggests that strategic action of one firm is not limited to only its operations, as the involvement in relationship with other firms leads to future strategic options in the whole existing network of actors. This notion not only leads to constant flow and interaction between involved actors of a network, but also provides access and knowledge sharing for further partnerships.

The network model draws attention to a firm's changing internationalization situation as a result of its position in a network of firms and associated relationships. Johanson and Mattsson (1988) contend that a highly internationalized firm is positioned within a foreign network and, thus, enjoys direct relationships with foreign actors. Having a network orientation and, consequently, identifying the roles and strengths of the actors within it, provides the firm with an understanding of possible constraints and opportunities for its operations (Axelsson and Johanson, 1992; Johanson and Vahlne, 1992) on target locations. Furthermore, being positioned within a foreign network allows the internationalized firm to develop relationships that, in turn, can lead to further linkages with other actors (Axelsson and Johanson, 1992; Johanson and Vahlne, 1992; Headley and Wilson, 2003) as a continuous process. Those relationships between the firms in different countries act as a bridge to new markets (Ojala, 2009) and directly influence firms' internationalization process. A firm can have relationships with various actors, including customers, distributors, suppliers, competitors, non-profit organizations, public administration, etc. (Johanson and Mattsson, 1988), all those actors can be a source of knowledge when it comes to rules of operations in foreign markets.

In 2009, Johanson and Vahlne suggested a model of internationalization, where importance of firms' network position was given a high attention.

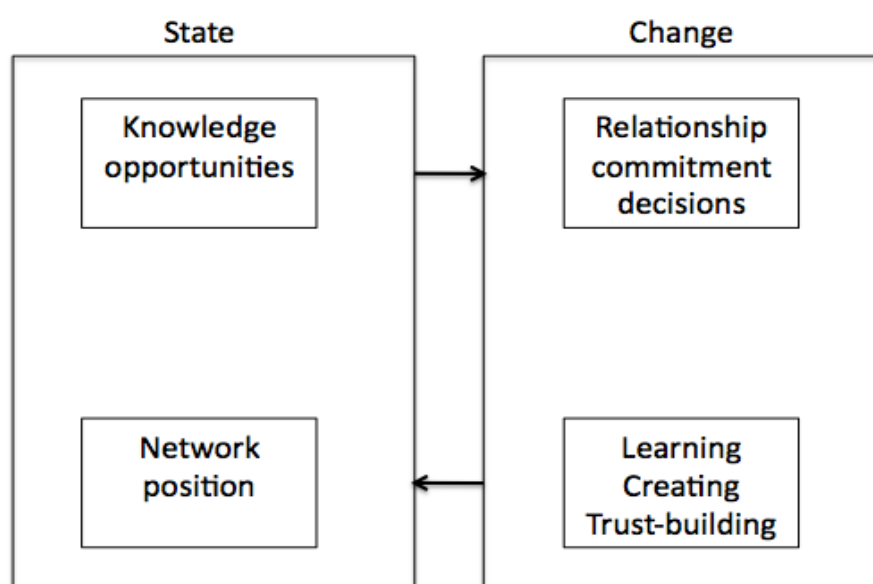


Figure 1. The business network internationalization process model (Johanson and Vahlne, 2009).

According to Johanson and Vahlne (2009) model, a firm's internationalization process is dependent on network position, which provides an access to exiting opportunity and firms learn about those opportunities through their networks. Also network partnerships provide a chance for firm's internationalization, through following their partners abroad, if such opportunity arises.

Lack of knowledge about foreign markets and operations is the main obstacle to internationalization, as knowledge can mainly be developed through experience from operations in those markets. New entrants to the market, that have no experience in a market they wish to target, face an endless circle, for which they should try to find an alternative way to overcome. Main principle of industrial network theory is that the knowledge of other actors in the network can influence a firm's decision making (Axelsson and Johanson, 1992; McKiernan, 1992). Consequently, the relationships that the international firm has with its network are considered important for the accumulation of knowledge. Especially for small firms, decisions related to committing resources, which may lead to internationalization process, are generally made on the basis of the collective experience of the firm's business network. These networks are important for gathering of knowledge from the markets and are often shared through a strong interpersonal network (Bonaccorsi, 1992; Denis and Depelteau, 1985).

Network theory provides grounds to examine a variety of internationalization issues, such as the impact of network relationships on foreign market selection and the influence of other firms (in both direct and indirect relationships) on new market entry strategies, power and control in domestic and foreign network relationships, the interconnectedness of network relationships and the effect of network relationships on the rate and success of international growth (Coviello and Munro, 1995).

3.1.1 Types of Network Ties

Relationships can be used in climbing over the country market barriers and entering the country market. The network view assumes that there may be several points of entry and, consequently, several ways of getting into the country market (Johansson and Vahlne, 2003), as there are usually numerous partnership opportunities available.

Depending on the strength of obtained network ties, the nature of relationship and the way those relationships are obtained and maintained, there has been distinguished several types of network ties.

Strong vs. weak ties. The ties may be strong or weak. Ties are weak when the amount of time, emotional intensity, intimacy, and reciprocity is low. Weak ties connect distant and otherwise disconnected firms. Firms with a large number of weak ties enjoy an advantage over those that are engaged in strong ties. Firstly, for cost reasons, firms are in a better position to maintain a large number of weak ties than a large number of strong ties (Boorman, 1975; Hansen, 1999). Strong network ties expect a high commitment and dedication to relationship, which often lead to extra costs. Compared to weak ties, strong ones are not able to supply network partners with novel knowledge, due to developed similarity of knowledge base. Weak network ties allow constant flow within potential partnerships and, therefore, encourage faster adaptability to new partnerships. Firms engaged in weak ties are in a better position to search for new knowledge, enjoy greater autonomy and adaptability. In their search for knowledge, firms can go outside their existing channels and ties (Sharma and Blomstermo, 2003), so the less they are dependent on existing ones, the easier it is for them to go after new partnerships.

Calculative vs. reactive ties. A calculative approach describes an intentionally managed network in which firms proactively seek out, develop, or diminish relationships in order to satisfy the firms' evolving needs (Hite and Hesterly, 2001), which supports the entrepreneurially oriented firms (Oviatt and McDougal, 1994). Being a part of network brings benefits like exploration and exploitation of opportunities (Ellis and Pecotich, 2001; Snehota and Hakansson, 1995), the acquisition of competitive advantages (Zaheer, Gulati and Nohria, 2000) and the management of risk (Easton, 1992; Freeman, Edwards and Schroder, 2006; Sepulveda and Gabrielsson, 2013), which is why internationalizing firms should be highly interested to approach and penetrate the most beneficial network in target markets. Reactive ties consequently refer to partnership that emerged without intention from the internationalizing firms; they usually result from mutual partnerships or acquaintances in the common network.

Active vs. passive ties. Development of relationships with other actors in the market can be active or passive. In active networking, the initiative is taken by the seller, whereas in passive networking the initiation comes from the buyer's direction (Johanson and Mattsson, 1988). The importance of active networking for learning, knowledge acquisition, foreign expansion, etc. is indicated in several studies (Gabrielsson, Kirpalani, Dimitratos, Solberg, and Zucchella, 2008; Gilmore, Carson, and Rocks, 2006; Loane and Bell, 2006). For instance, the study of Loane and Bell (2006) shows that a firm without suitable network relationships can take an active role and build new connections to facilitate its market entry. It is often up to the firms' management team to initiate the building of ties.

Passive networking is the result of an initiative taken by another actor, such as a customer, importer, intermediate, or supplier (Johanson and Vahlne, 2003) that can open new opportunities in foreign markets. Passive networking, where firms followed their existing informal relationships to the target market is rarely evident. That type of ties may help the firms internationalizing process, however the firm should be well positioned and easily found by interested network actors to make such reactive partnerships possible. Commonly, it is a consequence of the managers' personal contacts, which initiated the firm's market entry to selected market.

Formal, informal and intermediary ties. The different types of network relationships for entering foreign markets can be divided into formal, informal (Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Dubini and Aldrich, 1991; Harris and Wheeler, 2005; Rialp, Rialp, and Knight, 2005; Westphal, Boivie, and Chng, 2006), and intermediary (Chetty and Blankenburg Holm, 2000; Ellis and Pecotich, 2001; Havila, Johanson, and Thilenius, 2004; Oviatt and McDougall, 2005). Formal relationships are related to business activities between two or more actors in the network, the informal relationships are related to personal relationships with family members and friends (Coviello, 2006; Coviello and Martin, 1999; Coviello and Munro, 1995, 1997; Harris and Wheeler, 2005). Firm's formal and informal network relationships first give it an access to psychically close markets and help to determine suitable mode of entry to the market. However, over time, these formal and informal relationships can also facilitate market entry to markets, which are perceived as psychically distant. In addition to formal and informal relationships, several

researchers (Ellis and Pecotich, 2001; Havila et al., 2004; Oviatt and McDougall, 2005) have indicated the importance of intermediary relationships.

In intermediary relationships, there is no direct contact between the seller and the buyer. There is a third party, acting as a mediator, which facilitates the establishment of the network relationship between the buyer and the seller. Usually firms exclusively networked through mediated relationships with government-based non-profit consulting organizations, as by their nature, those entities are more challenging to approach, especially for new entrants of the market. These mediated relationships proved to play very critical role for those firms' establishment on the markets, as they did not have any existing formal or informal relationships that they could use for market entry themselves (Gabrielsson et al., 2008).

Competitor ties: Horizontal and Vertical networks. Competitors, despite commonly rival attitude, can be great network ties - through the process of networking, firms share information and work closely together in offering an improved service to customers. This may have the cumulative effect of making the network connections stronger and supporting the development of competitive advantages not only over each firm's direct competitors, but also within the industry as a whole. In such networks – essentially a horizontal network of competing firms (Johnsen and Johnsen, 1999) – the approach to networking may be different from the typical form of vertical business networks, where each actor has a specific role comprising different activities. Horizontal network gives rise to opportunities for developing and maintaining business connections around the world, relying on inter-firm co-operation with partners within the network rather than intra-firm subsidiaries. Trust in the capabilities and commitment of the other party acts as the glue that binds the relationships. Thus, the exchange of information between the firms and the sense of trust that appeared to exist in their relationships were identified as relevant factors in developing business connections for internationalization and the long-term growth of the firms (Bernal and Johnsen, 2002).

Working in a network of competitors, the value of collaboration was believed to be more substantial when compared to vertical forms of collaboration with suppliers or customers. All the network members know and are carrying out the same economic

activity and, therefore, the development of shared knowledge and understanding of requirements in performing network activities were easier to achieve. In working towards shared goals and aspirations in serving international customers, network goals appeared to be of higher importance than individual competitive instincts of firms. In a horizontal network of competitors access to others' resources provides different results from a vertical network. In vertical network relationships with other firms provide access to components and services that will be assembled to produce a final product. In a network consisting of competitors, the emphasis differs, in that by gaining access to others' resources and facilities small firms can gain advantages of being able to offer services, and indeed a whole infrastructure, through mutual connections with other network members. This is probably one of the most attractive opportunities provided by a competitor network, as each member can rely on and offer worldwide service by exploiting the resources, knowledge and connections of other firms in its network (Bernal and Johnsen, 2002).

3.1.2 Advantages and Disadvantages of Network Embedding

Some of the obvious advantages of network embedding were stated previously, in relation to different network ties an internationalizing firm can enjoy, however, it is important to contemplate the hidden or long term advantages that network can bring to particular actors, especially young firms. It is also important to point out the downsides of INVs being tightly embedded in networks.

Collaborative relationships open up possibilities that would not exist for firms acting alone. Co-operative arrangements between firms can help small firms compete with larger firms, as through these collaborative relationships firms may gain flexibility and speed of access to new capabilities, accruing the benefits of the resources and skills of another organization, but without risks and responsibilities that come from ownership (Bernal and Johnsen, 2002).

Blankenburg (1995) has suggested that within business networks the emergence of mutual commitment in relationships over time leads to the development of interdependent activities, increasing the level of mutual productivity. The personal relationships developed through informal daily contacts, and through formal network

meetings held twice each year, enable the generation of ties that contribute to the creation of a sense of belonging and commitment to the network, adding value to the activities of each firm individually and across the network. Membership of the network contributed to individual, as much as group or network competitive advantage. Being a part of network stimulates the work of each embedded firm, increases their knowledge, but also provides the grounds and possibility for the whole industry development.

A different type of network relationship - a network of competitors offers particular features difficult to find in a vertical network formed by customers and suppliers. Sharing knowledge and understanding other businesses and requirements enables the actors to offer valuable support and assistance to each other, and thus offer a better service when dealing with customers. (Bernal and Johnsen, 2002)

The existence of a network at the founding of the company is argued to be of smaller importance than expected. Some companies are founded without any previous network of the founder being involved (Rasmussen, Madsen and Evangelista, 2001), which implies that it is possible to establish new, and highly international firm from the ground with just a good idea and some experience.

Bonaccorsi (1992) points out that, even without the direct channels of communication with other organization, a firm may feel comfortable imitating other firms' internationalization decisions (Headley and Wilson, 2003), in such cases firms should gain organizational knowledge of other firm, which does not require network relationship establishment, but needs the search for information and imitation of company activities.

Another argument that downgrades the importance of networks for internationalization process suggests that certain beneficial relationships can "lock in" a company to the extent that management excludes other international opportunities, especially as relationships become institutionalized over time (Ford 1990; Welch and Welch, 1996). Countering this "locking in" effect of networks may involve measures such as deliberately developing network alternatives and/or continual assessment of current network emphasis, including resource allocation. The

key role of individuals in establishing and maintaining networks calls for staffing policies to become an important aspect of strategic flexibility (Welch and Welch 1993; Welch and Welch, 1996), as often network ties are tightly linked to particular individuals and their interpersonal network ties.

Finally, network relationships, while enhancing internationalization efforts, also constrained the scope and nature of market opportunities available for the firms to pursue. This restriction contributed to product and market diversification initiatives in order to reduce dependency on, and control by, dominant players (Coviello and Munro, 1995). However, there are known cases of firms adjusting their product offerings strictly to fit requirement of one valuable customer, which may further lead to overall redeveloped of product line.

3.2 INVs Internationalization through Networks.

International New Ventures are young business entities, which aim to initiate the activities on foreign markets from the beginning or within few years after their establishment. The principal resources of those firms consist of the founders and other creative individuals. Their unique skills combined with entrepreneurial orientation are the basic human resources that lead to the development of unique products with global market potential (Gabrielsson et al., 2008). During early stages of establishment, the INVs have limited resources at their use and an underdeveloped organizational structure, which is why they are also known for their exploitation of network ties in order to overcome constraints on foreign markets.

In the modern age of large information flows and Internet communications, INVs depend on unique and often tacit knowhow to sustain their advantage (Barney, 1991). However, successful accelerated internationalization requires a greater level of business expertise that young entrepreneurs rarely possess. Limited resources like finance or equipment, lack of reputation and legitimacy (newness), and unfamiliarity with various international business environments (foreignness) are some of the problems INVs face on foreign markets (Sepulveda and Gabrielsson, 2013). To make up for these shortages INVs rely on their networks (Oviatt and McDougall, 1994).

INV will normally try to enter a network in a global industry in order to offset its resource constraints in R&D, marketing, sourcing or financing (Gabrielsson et al., 2008). In order to compensate for its resource shortfalls, the INV needs to position itself in relevant channels/networks, since the firm offers novel products and services that are not yet on the market. The lack of resources and organizational structure can be compensated through entrepreneurially orientated ways: building a channel/network and trying to establish relations with potential customers (Gabrielsson et al., 2008). Hence, success in this phase hinges to large extent on the product/service itself and on the ability of the INV to place it on the market.

Bringing a new, especially technologically advanced product to the market, INVs with a necessarily limited record of achievement may face constraints in their cross-border relationships, such as reluctance of customers towards small, unknown foreign suppliers and their products (Burgel and Murray, 2000). The activities in the network allow the firm to form relationships, which help it to gain access to resources and markets, consequently build a trust base. In order to extend, penetrate or integrate, each firm built and maintained relationships with its suppliers, customers, distributors, competitors, and government organizations and the regional development boards. The internationalization of these firms can be seen as a “set of connected learning processes” (Axelsson and Johanson, 1992). For each firm, the learning process involves other actors in the network such as competitors, suppliers, customers and government (Coviello and Munro, 1995). Collaboration with local and familiar to customer supplier can be a way to overcome this apathy and uncertainty and provide market entrant an opportunity for business relations. INVs networks often consist of the collective set of relationships between the firm and external parties such as clients, suppliers, business intermediaries, social contacts, and others provided that they have some resource exchange with the firm (Easton, 1992; Snehota and Hakansson, 1995; Hite and Hesterly, 2001; Zhou, Wu, and Luo, 2007). As INVs attempt their first set of international entries, networks help the firms overcome their liabilities through the provision of predominantly human and organizational resources (Coviello and Cox, 2006; Sepulveda and Gabrielsson, 2013).

The actions of host governments, competitors, customers, suppliers, financial institutions, intermediaries, alliance partners, and suchlike may affect the company's activities in target markets in a variety of ways. In some cases, they may impede existing strategies or provide new opportunities for foreign market penetration. Many of the foreign marketing activities associated with internationalization could be termed "networking"— building links with a range of relevant players such as foreign agents, joint venture partners, host government officials, and the like (Welch and Welch, 1996). Firms' ties within the network provide means for sharing knowledge as well as the motivation to do so, as all actors in the network collaborate for common and own advantages. Network ties of firms depend on firms' specialization and are difficult to imitate and have consequences along three dimensions, namely (1) the information that is available to the firm, (2) its timing, and (3) referrals (Burt, 1997). Firstly, networks serve as source of information to firms of what is going on in the market, the access to information may be restricted only to network actors. Network may also be a source of unexpected random information for firms. Secondly, existing ties affect the timing of when a particular piece of information will be available to a particular firm. Finally, referrals imply that firms' interests are represented in a positive light, in the right place, and at the right time. Therefore, firms that are placed centrally in a network receive more, better, and early knowledge compared to their competitors (Sharma and Blomstermo, 2003). Those three dimensions may have a great impact on overall development and growth of the firm across borders and its speed.

Johansson and Mattson (1988) also suggest that companies can rely on their existing networks – customer-supplier relationships, rather than the product itself, when they decide to enter a foreign market. Firms can expand from domestic to international markets through existing relationships, which offer contacts and help to develop new partners and positions in new markets (Coviello and Munro, 1995). Domestic partnerships can be helpful for further network pursuit abroad, as they provide access to partners' networks and use of existing partner as a point of reference. External independent actors, which may not formally be part of the internationalizing firm, can assist firm through entry to markets, of which it does not possess prior knowledge nor has experience in dealing with (Awuah, Gebrekidan and Osarenkoe, 2011). Partnering up with organizations on target market can not only help

internationalizing firm to overcome the barriers, but also develop knowledge to resolve problems in further internationalization process. Highly internationalized network would be a greater source of experiential knowledge for an internationalizing firm, relative to the knowledge resources present in a network. INVs' interaction with other internationalized firms results in exposure to a greater number and variety of foreign institutional knowledge sources than when relying solely on its own internal capabilities (Headley and Wilson, 2003).

3.2.1 Network Relationships Development

Network development can be intentionally nurtured so that further international expansion opportunities are realized. In fact, many industrial companies have a strong recognition of the value of their networks for further international operations. Much of their activities revolve around promoting and supporting their networks (Ford, 1990). In this way, networking becomes an integral part of the company's international strategic management process, rather than simply a fortuitous outcome (Welch and Welch, 1996). Firms actively develop their networks through a process of exploration, selection, and utilization of ties that occur within and across various developmental stages, and over time these changes increase network density, complexity, and interdependence. INVs proactively take action to size, shape, and use their network relationships in a way that satisfies the evolving needs of the firm. Firms capture particular benefits from the development of their networks including an expanded set of opportunities, competitive advantages, and the management of risk and uncertainty.

Networks are a dynamic source of resources that support INVs' survival, internationalization and growth well beyond their initial stages (Sepulveda and Gabrielsson, 2013). The development and utilization of foreign networks is closely related to the learning process that underlies overall internationalization. Indeed, an important part of a company's knowledge is often created and maintained through actors in its relevant networks (Welch and Welch, 1996). All firms are engaged in a limited set of business relationships with important customer and supplier firms, which, in turn, have relationships with still other firms. Thus, every firm is a part of

an unbounded business network (Johansson and Vahlne, 2003). The way firm develops and utilizes its network has a great impact on its further development.

INVs devote little effort to collecting country specific institutional knowledge. Firms often obtain this knowledge through their network ties (distributors and agents). Because of a lack of experience of foreign markets, institutional knowledge is not perceived to be important. INVs take time to realize the importance of institutional knowledge in going abroad. Firms are believed to increase their ability as well as willingness to uncover business opportunity behind borders and to manage business exchange abroad (Sharma and Blomstermo, 2003). The process is reactive and co-evolutionary. Existing ties shape up and sometimes restrict the future evolution of INVs networks and pre-existing ties provide INVs with access to their existing ties and in the manner of obtaining additional relations through existing ties enhance the overall network development in chain reaction (Sharma and Blomstermo, 2003). INVs are engaged in numerous weak ties. They are primarily weak, as the intensity as well as the duration of interaction with each individual market and actor abroad is limited. Some of these ties are indirect and involve intermediaries. Intermediaries help otherwise disconnected units to communicate and form relationships. As stated earlier, weak ties are easier and less expensive to maintain. Through them, INVs can develop internationalization knowledge and an absorptive capability consisting of a large variety of cues in foreign markets (Sharma and Blomstermo, 2003).

Depending on the goal behind networking, scholars have identified various perceptions firms have on networks and their effect, some see it as an opportunity to learn, some as a strategic means to development and others – as a source for more opportunities to perceive.

Networks and organization learning. Organizational learning is the process of assimilating new knowledge into the organization's knowledge base, for INVs this knowledge is usually associated with foreign market operations (Autio, Sapienza and Almeida, 2000). Knowledge and learning can be expected to have an impact on international growth in that internationalizing firms must apprehend, share, and assimilate new knowledge in order to compete and grow in markets in which they have little or no previous experience. When a firm internationalizes, it must take on

completely new knowledge (Ghoshal, 1987), including experiential knowledge of specific foreign business practices and institutional norms as well as general experiential knowledge of how to organize for foreign competition (Autio et al., 2000). Network ties are the means how this type of knowledge can be obtained, considering that INVs lack time and resources to gain experiential knowledge themselves.

Opportunity seeking through networks. INVs lack on previous successes and fixed routines in entering foreign markets, however they are innovative in combining their own resources with the resources of others through JVs and partnerships (or low control market entry modes). Partnerships may partially compensate for the resource disadvantage of internationalizing firms. In other words, the internationalization process of INVs is characterized by the strategy of exploration (March, 1991) and opportunity seeking (Sharma and Blomstermo, 2003).

When firms are entering attractive but distant markets for their products they are not passively following their networks to foreign markets. Instead, they are actively seeking for opportunities in the foreign markets and, thereafter, develop new networks or utilize existing networks to reach these opportunities. This is consistent with the international new venture theory (Oviatt and McDougall, 1994) that highlights the opportunity seeking behavior of knowledge-intensive firms.

Entrepreneurial actors identify and create the business opportunities and can act as facilitators of the business net. While prior entrepreneurial opportunity literature has emphasized the role of individuals in identifying and exploiting business opportunities (Palo and Tahtinen, 2013), entrepreneurial activities can be dispersed around the organization and the network, implying the role of networks in opportunity development (Palo and Tahtinen, 2013) for involved actors.

Finding foreign opportunities is particularly important for INVs as such opportunities are often shaped by existing network relationships (Ellis, 2000) — and networking has a significant positive influence on the survival of firms. By definition, INVs seek to gain international competitive advantages (Oviatt and McDougall, 1994) and one way to achieve them is through networks.

Network development as strategy. Several scholars (Barney, 1991; Lavie, 2006) believe that network content and the associated relationships are strategic and generate competitive advantages when they create value. They are difficult to acquire or enter into, and are hard for others to imitate or substitute. Network content is typically not strategic during INVs early stages but becomes increasingly so with internal resource accumulation. This is because early network content is intended to alleviate firms' resource shortages and tends to be of a simple utilitarian nature, which does not qualify as strategic (Welch and Welch, 1996).

Network development is composed of both intended and unintended components. Network development, whether intended or unintended, feeds into the company's strategic foundation as an important element of ongoing capacity for international operations. However, because broader parts of the network connections are unseen, a so-called "strategic blind spot" is thereby created. The blind spot is a component of the firm's strategic foundation that is not recognized yet is part of the company's facility for further international growth. By definition, unseen networks cannot be included in the formal strategic planning cycle (Welch and Welch, 1996).

Even when recognized, it is still difficult for companies to include networks in the strategic planning cycle, as network development may occur in an unintended way or as an unexpected outcome of deliberate actions. Further, due to the inherent intangibility of networks, there is a tendency to underrate the strategic value of networks and their development. They are certainly not evaluated in financial terms (e.g., on the balance sheet) nor are they part of the criteria commonly listed in planning approaches and techniques (Welch and Welch, 1996). Besides their somewhat unseen character, networks are hard to control and they may change over time. An additional complication for strategic planners is that they are often outsiders to many of the relevant networks (Welch and Welch, 1996) and may not be able to approach the exact actor that may carry the most of benefits for a firm.

Taking account of networks, company planners need to be able to identify relevant company relationships. The difficulty in proper network mapping is that strategic planners are often outsiders to the very networks they seek to identify. In case of international markets, where geographical and cultural distances tend to isolate actors

from each other, it is especially noticeable. To overcome this distance, several actions can be taken - deliberate building of linkages to key actors within the company's networks (internal and external), thereby minimizing the risk that strategic planners face. Planners tend to become excluded from relevant networks because they have abstracted themselves from the detail of day-to-day operations (Welch and Welch, 1996). INVs should try to maintain the collaborative relationship despite the distance. Foreign market visits by management, combined with employing international marketing staff, however, is an obvious way of staying in contact with the foreign network. Strategically important contact networks are based on key people. Departure of key people from the network (either by exiting the company or through an intra-company transfer) may threaten the very existence of network ties (Welch and Welch 1996). Strong ties and network maintenance will not only help in protecting and monitoring networks but should also assist knowledge development (Welch and Welch, 1996) among linked firms.

Network membership in itself can be a source of competitive advantage (Zaheer et al., 2000) (Sepulveda and Gabrielsson, 2013) because of the restricted ability of any firm to join, and other advantages, such as reputational effects and referrals as suggested earlier. However an INV's ability to generate competitive advantages from its network relationships seems unlikely on early stages, as mutuality, trust and interdependence have not yet formed. As firms accumulate internal resources, network content becomes increasingly strategic, strong ties turn less prevalent, and centrality improves. In this way INVs' strong Entrepreneurial Orientation coincides with Strategic Network Management (Sepulveda and Gabrielsson, 2013).

3.2.2 Partner Selection.

When knowledge-intensive INVs enter distant markets, they are more likely to select the target country and the entry mode without any influence of network partners. A firm's network position is important, because as a market asset it allows access to another firm's internal assets (Chetty and Holm, 2000). Given the apparent reliance on network relationships for international growth, more attention should be paid to how and with whom relationships are established, and what network management skills are required over time. Management of established relationships requires more

attention, particularly when larger partners tend to take control over the activities of smaller firms. Existing networks as well as ability to establish new network relationships should be managed as a key competitive capability (Coviello and Munro, 1997). Thereafter, INVs start to develop new relationships or utilize existing relationships to achieve the market entry. Thus, a market entry and entry mode choice to a psychically distant market is more of a consequence of strategic reasons than that of initiation by network relationships (Ojala, 2009).

INVs have specific resource endowments (Barney, 1991) but may need additional resources to be competitive in particular markets (Hitt, Nixon, Clifford, and Coyne, 1999). Such a need is a primary reason for strategic alliances and for the selection of specific alliance partners. Resources of particular interest in cross-border alliances include financial capital, technical capabilities, managerial capabilities, and other intangible assets, such as firm reputation (in the case of emerging market firms). In addition to seeking local market knowledge and access, developed market firms with large resource endowments try to leverage their resources by selecting alliance partners with complementary capabilities and unique competencies. Alliances provide the opportunity to combine the resources of both partners, yet often firms enter alliances to build their own resource endowments (Hitt, Dacin, Levitas, Arregle and Borza, 2000).

Mediated relationships are a valuable resource for INV that do not have formal or informal network relationship available to facilitate their market entry to a psychically distant market. These firms can benefit from non-profit consulting firms when entering new markets and can use their connections for further networking in the target country. Furthermore, the findings indicate that managers should actively develop their network relationships to achieve market entry to the leading markets. If a firm only passively follows its networks to foreign markets, it might lose market opportunities in the leading markets and end up in countries where the real market potential is low (Ojala, 2009).

Partner selection is one of the crucial decisions related to strategic alliances (Hitt, Tyler, Hardee and Park, 1995). Transaction cost analysis posits that partner choice in international markets is based on the reputation of the international partner and the

perception that an opportunity is associated with the particular partner. Under the theory of internalization, selection criteria include partner reputation, along with the partner's experience and competence. Evolutionist theory advocates suggest that a particular partner is selected based on the compatibility of its routines and the level of confidence between partners (Beliveau, Haskell and Veilleux, 2011). Hitt, et al (2000) suggest that variations in partner selection criteria used by developed country and emerging market executives are likely to occur based on differences in norms, resources, and infrastructures, leading to important differences in partner preferences. Developed county managers are known to put a lot of emphasis on the following 6 factors that affect partner selection: unique competencies of partner, market knowledge/access, previous alliance experience, cost of alternatives, industry attractiveness, and special skills to learn from the partner (Beliveau, Haskell and Veilleux, 2011).

The relationship development process could represent an important theoretical framework to describe the selection of foreign market/customer as well as the firm's internationalization process (Andersen and Buvik, 2002). The relationship initiation is believed to be selective (Heide, 1994). At the first stage, the seller or buyer is supposed to search for a number of feasible international exchange partners. A number of information sources may be used in the identification of potential partners, including the focal firm's network. A sequential search process is likely, by first using actors that the firm presently has direct relations with, and later on using actors that the firm has indirect relations with (Axelsson and Johanson, 1992; Blankenburg, Eriksson, and Johanson, 1996, 1999; Johanson and Mattson, 1988). Depending on the environment that INVs may find themselves in, they may perceive different strategies to select and attract partners. Combination of several strategies is also possible, as it provides firms with broader access to potential relationships and as a consequence more opportunities. Freeman et al. (2006) identified some of those strategies:

Extensive Personal Network Contacts. Senior managers, usually having many long-term personal contacts in foreign markets related to the industry they operate in are able to use those networks to enhance the pace of their firms' internationalization. They were able to use their networks to connect to lead markets through large key

foreign customers and suppliers and, thus, to participate rapidly in those markets with large orders from inception (Freeman et al., 2006). Founders of INVs are the initiators of the firms' activities and they play important role in identifying the stimuli for relationship establishment. Managers of the global firms view the world as their marketplace; communicate the importance of their export activities to all employees and focus on developing resources for their export activities. Global firms have a higher score for international proactiveness, meaning that they have a culture at ease with exploring opportunities abroad and boldness in decision-making (Moen, 2002). Closer examination of INVs reveals that many of them operate in highly internationalized industrial sectors. These firms seem to be a part of strong industrial clusters of firms often located in the same geographic area – with a tradition of serving customers world-wide, firms “may behave according to an evolutionary framework”, where the history of the founder, his industrial experience and the network established before the start-up of the firm should be regarded as important factors (Madsen and Servais, 1997; Moen, 2002). A manager may even prevent internationalization of the firm although the network wants to drive it into internationalization (Chetty and Holm, 2000).

Collaborative Partnership with Large Foreign Customers. Developing strong, adaptable relationships with large global suppliers and by achieving high standards of quality, managers of younger firms can minimize the risks of “switching” and cancellation of large orders and secure their partnership with larger actors (Freeman et al., 2006). Managing the rapid pace of international expansion places significant strain on firm resources, so trust must be developed quickly, and risk taking is necessary to create new relationships from existing ones. Risk taking can be compensated by referrals from existing partners in networks that, in a sense, protected the small firm from “unknown” partners. This allowed the managers to rely on these referrals from collaborative partners to build more network partners early and quickly and to expand rapidly into the international market (Freeman et al., 2006).

Client Followership. According to Bell et al. (2003) small firms can reduce risks, associated with rapid internationalization through client followership. Developing relationships with large suppliers and customers into strategic alliances, licensing,

and JVs, managers of small INVs share the financial risk and burden with partners and rapidly follow their client base, which enhances firms' visibility in foreign network (Freeman et al., 2006).

Use of Advanced Technology. Knowledge-intensive firms were found more proactive in their internationalization strategies than traditional firms (Crick and Spence 2005), therefore high-tech processes appear to underpin the achievement of sustained, early, rapid international growth (Freeman et al., 2006). INVs that bring new technology to the market are likely to internationalize fast due to specific characteristics of their products, which are often hard to imitate.

Multiple modes of entry. INVs internationalize at a rapid pace using multiple strategies, such as strategic alliances, JVs, wholly owned subsidiaries (Karlsen, Silseth, Benito and Welch, 2003), and client followership (Bell, McNaughton, Young and Crick, 2003). Managers of INVs tend to rely on multiple strategies for rapid market entry achieved through collaborative partnerships and client followership (Freeman et al., 2006). In such cases a broad orientation is likely to bring results sooner, as one of the approaches/strategies out of many is likely to resemble successful results.

Prior entering foreign markets, managers should not focus on the firm's internal barriers to internationalization, but should look to its network for resources and opportunities to internationalize. The emphasis should be on value creation rather than cost. They need to realize that their capabilities are limited, but these capabilities can be complemented by collaborating with other firms (Chetty and Blankenburg Holm, 2000).

INVs should tap into local knowledge but avoid over-embedding; they should be selective about their knowledge linkages with other firms in the available network. Similarly, authorities at target markets should try to stimulate innovation in clusters through policies that encourage external openness and links with national and international actors (Giuliani, 2013) in order to lead the development of the whole industry network.

Companies consider the relationships in their existing networks to be of varying importance for international market development. At the same time, the companies consider and pinpoint the importance of participating in international networks for their international market activities (Rundh, 2001). In order to start building something that might later on be called a relationship, the company must succeed in attracting the customer. The power of attraction depends on the company reputation, image and capital of trust. Once the relationship is established, it must be maintained over time. In selecting clients abroad, INVs improvise, adapt, and show a willingness to learn on the needs of the individual buyers and the local distribution channels. They adapt foreign entry mode to the needs of the individual markets and clients. However, within firms, there is no predetermined blueprint to be followed to select foreign clients. The process is one of improvisation and trial and error (Sharma and Blomstermo, 2003).

Basically, the relationship view takes a co-operative approach towards inter-firm interaction that focus on the quality of the relationship (Dorsch, Swanson, and Kelley, 1998). If the focal firm has to select between two or more potential exchange partners, the perception of goal compatibility, trust and performance (Harvey and Lusch, 1995) of the different candidates are likely to be important indicators. Such types of information, and in particular concerning goal compatibility and trust, are most likely to be based on direct experience (Andersen and Buvik, 2002).

3.3 Networks in Emerging Economies

Today, markets worldwide experience extremely high dynamics in transactions and operations. Following from this, markets are systems of social and industrial relationships among, for example, customers, suppliers, competitors and other actors (Rundh, 2001). Each country market is different depending on its economic, institutional, and cultural conditions; those conditions often act as barriers to business operations. The size and importance of those obstacles is usually discussed in terms of psychic distance or cultural distance to particular market. Entering a country market is a matter of climbing over the barriers thereby becoming a market insider (Johansson and Vahlne, 2003), which requires knowledge and understanding of the differences.

Business networks are long-standing relationships between legally independent firms that exploit mutual complementarities and exchange information (Meyer and Skak, 2002). In modern business settings, network relationships serve as bridges to particular markets and knowledge sharing platform that is why it is very important for small businesses' strategies to take up a spot in the network and evolve along with it. From standard understanding about networks and benefits of being a part of network, it is quite obvious that networks as structures play an important role in companies' development, internationalization and growth everywhere in the world. When it comes to emerging economies, somehow the importance of networks in those markets seems to be overrated and overstated. Is the networking phenomenon really that crucial for businesses in Russian and Ukraine?

3.3.1 Importance of Networks in Emerging Economies

Emerging markets are characterized by transition of corporate governance from state and collective ownership towards mixture of state, collective, private and foreign ownership. Such changes, even though they may take a slow pace, bring other institutional changes, like emergence of property law, business legislation, capital and financial markets and decrease of entry barriers for foreign firms (Jansson, Johansson and Ramström, 2007).

This transition takes time and changes in institutions are bound to constant alterations, which make them turbulent and unpredictable. The uncertainty, in its turn, causes decline in trust for formal institutions in problem solving and disputes, therefore market actors rely on informal institutions to solve conflicts. Many years of one party plan-governance and centuries of the authoritative state has led to a situation where trust only exists if actors are extensively embedded and interlocked in the same inter-firm or social network (Jansson, 2008). Although the legal environment is stabilizing, the local business networks are guided by informal rules and relationships that may be difficult to understand for outsiders (Toppinen, Toivonen, Mutanen, Goltsev and Tatti, 2007), who are either bound to misinterpret certain agreements or have to rely on local assistance.

An ideology behind network relationships implies certain peculiarities in the way the networks are formed and handled. As researchers (Blanchard and Kremer, 1997) claim, trust does not act as a basis of the network relations, but aspiration of mutual benefit through network embedding is what keeps networks strong. Business networks in emerging markets are often characterized by combination of uncertainty avoidance through formalization and at the same time lack of transparency. Good example of it would be the proper documentation of contracts, while everyone is aware that the terms of the contract may not be followed. Such practices may be difficult to understand for parties that are not tightly integrated into the network, which makes overall performance of involved players loose and turbulent (Salmi, 2000) (Jansson et al., 2007).

Some researchers (Fey and Shekshnia, 2008) claim that developing relationships takes time in emerging economies; hence patience and perseverance are critically important for success. Others (Blanchard and Kremer, 1997) found that short-term focus on partnerships is prevalent in emerging economies, as they are tended to terminate relationships rapidly, if they see that continuation of partnership requires additional investment and change of activities.

Constant suspicion seems to be present in emerging markets' business networks, regardless of the stage of partnerships. Previous involvement in partnerships may reduce suspicion, but does not guarantee a fully established trust. Players, embedded in the relationships prefer to control and dominate important relationships, which can lead to conflicts between them. So what exactly makes business relationships worthwhile in emerging economies?

On one hand firms in a network are looking for stable relationship, but on the other hand they prefer not to be dependent on those partnerships (Jansson et al., 2007). In evaluation of business partnerships the performance is opposed to social aspects of those partnerships, such as conditions behind the agreements. An understanding of the matter of networks is quite crucial for INVs that aim to enter emerging markets, since establishment of personal contacts with local players will provide the opportunity to learn about informal rules and even more importantly relationships in target market (Hulten, 2009).

3.3.2 Insights for Networking in Emerging Economies.

Network belonging serves firms in various ways: accumulates the knowledge sharing about market, creating dependencies that can open opportunities for other firms, increasing commitment to particular foreign market, establishing operations through common contacts. Properly established networks made the market entry process a lot easier for new entrants, as network embeddings supplied them with sufficient knowledge on how emerging markets operate.

INVs that plan to start business operations in emerging markets of Russia and Ukraine should be aware of basic insights on factors that govern local business networks (Salmi, 1996), (Hulten, 2009). Lacking experience or contacts in the industry sectors, new entrants may be regarded as non-credible by other players of network. Accumulation of social capital within emerging economies in such conditions can be pursued as an efficient strategy (Fey and Shekshnia, 2008), however it may be difficult to implement for INVs that lack resources. Meyer and Skak (2002) in their study suggest an algorithm for firms that want to enter emerging economies (in context of Eastern Europe):

- Build and maintain domestic and international networks;
- Monitor networks for new contacts and opportunities;
- Plan flexible strategy to adapt to new opportunities;
- Develop capabilities, that will allow to react to opportunities without delays;
- Build personal relationship with potential partners;
- Study the specific economic and cultural context of your partners;

The proposed algorithm shows the importance of networks prior the entrance of the foreign emerging market. Being a part of the network is even a prerequisite factor and comes before the knowledge of cultural and economic conditions. Pisano, Ireland, Hitt, and Webb (2007) argue that collaboration with local actor is the most suitable entry mode for a foreign firm to use to enter an emerging economy successfully.

When it comes to steel industry it is important to understand the form of business relations. Most commonly they are formed between private entities (B2B) or between businesses and governmental structures (B2G). Governmental structures are known to be a lot slower to adapt to transitions, which affects their relationships as well. Speaking of Russia and Ukraine, which are selected as context for current work, it is important to understand the influence government of two countries has on the industry. Russian steel industry is compound out of several big actors and lots of smaller ones; and all those actors operate according to the governmental policies. In Ukraine, with one leading producer and many smaller ones, government attempts to support the development of industry and is often bound to adjust its policies according to the industry leader. New entrants should take those differences in two countries into the account as they can face dissimilar procedures and support from partners in those markets.

4 METHODOLOGY

In order to fulfil the purposes of research work and provide validation of theoretical compound, presented in chapter three, collection and analysis of practical data are required. Current chapter provides explanation for the methodology that was applied in research work. First, it provides the grounds and reasoning of the decision making process for data collection and analysis. Then, the structure of the study is revealed by explanation of the themes covered during data collection (interview). The practicalities of data collection, that include the sample selection and description of collection process itself, follow the research design. And in the end of current chapter, a process of data analysis is presented together with probable limitations of the study.

4.1 Research Method

Prior selection of the research method it is necessary to review the aim and purpose of the research work. Considering the nature of research question, the qualitative research method was selected to examine available practices and compare them to the theoretical constructs. Qualitative method is generally aimed at answering questions “how” and “why” (Yin, 1994; Yin, 2009) and is based on data collection from natural and realistic setting, which fits the purposes of current work. The role of researcher is to act as data collection instrument and to align gathered data with the theoretical subject of research. Interpretation of data through qualitative research is tightly bound to researcher’s perception and observation; therefore leads to unique results and findings.

The purpose of current study is to examine the role that networks play during internationalization process, with further specification or limitation to specific context – Russian and Ukrainian steel industry networks. Quite specific focus of research subject, as it is opposed to relatively wide theoretical background, calls for conducting the interviews within selected context. As research aims to look into the existing operating practices, that are believed to be prevalent among representatives of selected countries and are, to certain extent, bound to business culture, the

interviews were conducted with companies, embedded in Russian and Ukrainian steel industry networks.

4.2 Research Design

Qualitative research method relies on data collection in form of theme interviews, surveys, observations and analysis of available documented data. For current research, the semi-structured interviews were chosen as a strategy. Semi-structured interview consists of open-ended questions related to the theme of study, which allows interviewer to lead the dialogue, but at the same time not restrict the depth and width of answers. Therefore, it is up to interviewer to pose the questions in particular order and even leave some out, depending on the interviewee responses.

Despite flexibility that semi-structured interviews offer, it is necessary to plan the interview structure prior data gathering. Preparation process includes determination of main themes that derive from theoretical constructs covered in third chapter of research work. In order to get the better understanding of the operations and key issues of studied context, a test interview was carried out with Erkki Suvanto, Managing Director of Pinifer, Finnish company that has been a supplier of vegetable oil based bio-lubricants to major Russian steel manufacturer Severstal. A test interview helped to construct a convenient layout for the upcoming interviews with Russian and Ukrainian companies.

Taking into the account that current work is written in English, but the source of data collection were chosen to be representatives of Russian and Ukrainian companies, the interview structure was completed in two languages: English and Russian. The themes of the interviews were identified and stated in a way that a particular interview has logical and steady flow of conversation. As interviewees were not limited in any way in their answers, some have carried on the responses that covered forthcoming questions. In several cases, some of the predefined questions were left out, as they were not coherent with responses to previous questions. The purpose of semi-structured interviews as a mean of data collection, is to get the better understanding of the studied phenomenon, interviewer is also able to ask additional specifying questions.

The purpose of current research is to study the role that networks and partnerships play in internationalization process of INVs entering Russian and Ukrainian steel industry market; therefore the themes to be covered in interviews were identified in accordance with that purpose. The logical flow of interview required familiarization with particular company's cooperation experience with foreign (European) companies, therefore the starting theme and questions were determined in order to get the background information on previous or existing practices and their nature.

Theme 1: Nature of relationships:

1. What kind of partner relationships a company had with western (European) companies? What is a role of western partners to company?
2. How did they start and when?
3. Who was the initiator of this partnership?
4. What is usually a decisive factor in relationship establishment with your prospect partners?
5. What is decision-making process like?

As the interviewees provide responses to the 1st theme, they provide the grounds for further discussion, which is aimed to identify how companies perceive the prospect partners that are seeking to enter network and establish business relationships.

Theme 2: Criteria for partnership:

6. How do you rate/select your partners?
7. What is a role of partner reputation?
8. How do you feel about prospect partner if you know that they have established relationship with your competitor?

As business networks consists of interrelations between variety of companies and individual players and often parties that are involved in networks may serve as connecting links for other players. The following theme is aimed to learn about roles of intermediaries.

Theme 3: Intermediaries in relationship establishment:

9. Do intermediaries play important role in partnership establishment?

Next theme has exploratory character, as it is aimed to figure out how the process of relationship-establishment is carried out in practice for each interviewed company. Understanding of established procedures and operations and knowledge of commonly used channels for partner search provide the framework and direction for western companies to aim at, as they seek to enter the network. Thus the 4th theme focuses on relationship building as a process.

Theme 4: Relationship establishment process:

10. What are the company's expectations from western companies and their technology?
11. Do you tend to trust western companies more than local and vice a versa? Why?
12. How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?
13. What is happening before tendering process? How are the tenders conducted?

Evaluation of existing partnerships is important for companies, as nowadays markets offer a great variety of alternative partnerships, under more favorable conditions. Hence the following theme covers the companies' perceptions and expectations of partners.

Theme 5: Assessment of relationship:

14. What is your partner's core capability that makes partnership attractive?
15. What kind of constraints did you experience in dealing with western partners?
16. How were the constraints handled/eliminated?
17. Did you have to terminate any relationships due to existing constraints? Why?

As semi-structured interview allows posing the specifying questions and encourages additional questions that may contribute to the study of phenomenon, an extra question was added as an attempt to put interviewees in the shoes of potential customers. The question by its nature, calls for advice from companies, which are experienced in working within selected context, to new entrants.

Closing Question:

18. What are the important things western companies should take into consideration when starting business partnership in Russia/ Ukraine?

4.3 Data Collection and Sampling

Qualitative study requires a clearly marked sample of the companies or individuals that are to be interviewed. A wide scope of companies, belonging to Russian and Ukrainian steel industry network, was collected and broken down into four major groups: global steel manufactures, local steel manufacturers, global suppliers of steel manufacturing equipment and local consultancies, suppliers of steel manufacturing equipment.

Such division can be explained by the attempt to gather information of how relationships established on different levels of the networks and how the process of partner selection may vary depending on the size of the company and its specialization. The aim was to interview at least two representatives of each group.

After the groups of companies were defined, it was also necessary to identify the proper person to interview as a representative of a company. As business to business relationships among customers and supplier predominate in steel industry, the most suitable person to interview would be one, who holds the position that affects the decision-making process of supplier selection, since this research revolves around the INVs that aim to enter foreign market with their products. Purchase department representatives and positions responsible for production units were identified as most appropriate and knowledgeable about the practicalities of business relationship establishment.

From the list of companies embedded in Russian and Ukrainian steel industry networks, representatives of eight agreed for an interview. They were: OJSC Almetyevsk Pipe Plant (of OMK Steel) and Severstal TPZ Sheksna as global manufacturers, Comterm and SAS Engineering Company as global suppliers, VKM Steel and Electrosteel as local manufacturers, Gidromehanika and Termolit Plus Company as local suppliers. Considering the similarity of operational environments

in Russia and Ukraine, companies were not segregated on the basis of country belongingness. Depending on the size of company, either the head of purchase department or production line were interviewed, for smaller companies it was possible to interview director or founder.

The interviews were carried out in Russian language, as all respondents were either native Russian or Ukrainian speakers. Due to the distance, the interviews were carried out over the calls via Skype. Interviews took from 15 to 40 minutes, depending on the length and depth of the answer interviewees were willing to provide. All the responses were recorded and then translated into English by researcher and put into the text transcripts for analysis and documentation purposes. Additional data on the structure of the companies was gathered from companies' web sites and profiles prior interviews. It helped to target and eventually interview the most appropriate respondents.

4.4 Data Analysis and Limitations of the Study

Qualitative study by its characteristics is highly bound to researcher's understanding and perception of studied phenomenon; hence, its objectivity can be argued depending on the person conducting the study. Besides, current research is tightly linked to relatively specific context and cannot represent the generalized results, but it can, however, depict the unexpected insights on existing practical matters. Another limitation of the study is tied to the cooperation practicalities that companies developed over time, that may be unique to one specific company and do not reflect on operations of the other companies. More to that, the practicalities are bound to change over time and cannot be considered as blueprints for every one and single player in steel industry network.

As average individuals played the roles of respondents and some of the interview questions are linked to personal views and opinions, the responses should not be treated as strict rules and guidelines. In addition to that, the interviewer's interpretation of gathered data is bound to be shaped by individual's perception of the topic, even though the interview responses were recorded and transcribed word to word.

5 ANALYSIS

This chapter is dedicated to analysis of data gathered through semi-structured interviews in relation to outlined themes. The chapter is divided according to those themes that showed to be of great importance during study. It starts off with short introduction of interviewed companies, their position in steel industry network and experience of working with foreign partners.

5.1 Introduction of Interviewed Companies

Since companies in selected sample vary in their size and specialization, their position in network and perception of potential foreign partners also vary. It is worth to provide additional information on companies' concentration, as it may have a direct effect on how those companies establish and lead partnerships.

Two of the companies, classified in current work as global steel manufacturers, are Severstal, represented by its facility TPZ Sheksna in interviews, and OMK (United Metallurgical Company), which was also represented by its facility – OJSC Almeteyevsk Pipe Plant (APP).

Severstal TPZ Sheksna is a wholly owned subsidiary of JSC Severstal, which produces round, square and rectangular pipes. It is a unique facility for the North-West of Russia in terms of production equipment and capacities to fulfill the orders. Main consumers of TPZ Sheksna are construction companies. The facility is quite new, as it was opened and started functioning in 2010; its annual production capacity goes up to 250,000 tons of pipes. The Head of Manufacture, Mikhail Zharkov agreed to be interviewed for current research.

OJSC Almeteyevsk Pipe Plant (APP) is also a manufacturing unit, equipped with modern technology, which specializes on production of steel electric-welded pipes and applying high quality coating to pipes. Facility's annual manufacturing capacity

reaches 300,000 tons of pipes. Marat Yegamov, a Head of Materials and Technology Purchase, was interviewed on the company behalf.

Two following companies represented second group within the sample – LLC VKM Stal in Russia and Electrostal in Ukraine, which are producers of steel product on local scale.

LLC VKM Stal was established over 50 years ago as a wagon casting manufacturer, throughout the years the facility has gone through several modernization initiatives, yet its focus is still on wagon casting and machinery manufacturing. LLC VKM Stal is being actively reconstructed to improve production - it continues to introduce modern technology and equipment. The annual capacity of the plant is 30,000 tons of wagon casting. For the purposes of current study, a Head of Purchase Department Sergey Yeromkin was interviewed.

Electrostal is a plant, equipped with an Electric Arc Furnace (EAF) that was established in 2008 in Ukraine, specializing on production of cast billets and rubble sand mixtures. The planned capacity of facility is 300,000 tones annually, but the plant produces more than 500,000 tons of billet per year. Head Engineer of Electrostal, Alexander Khobta agreed to be interviewed for the study.

Next group of the sample is represented by global suppliers/modernizers of steel manufacturing equipment and components – Comterm in Russia and SAS Engineering Company in Ukraine. Due to the specificity of services the following companies offer, it is difficult to measure their annual output, however, some data on the amount of customers, obtained from companies' web-sites will be stated.

Comterm specializes on supply and automation of EAFs, specifically, takes care of maintenance, reconstruction and modernization of furnaces. Since company's establishment in 1992, its technological solutions were introduced to over 40 steel manufacturing facilities in different countries. For the purposes for current work, an interview with Development Director Ilya Nekhamin was arranged.

SAS Engineering Company was founded in 1999 in Ukraine. The main direction of the firm is to provide businesses foundries and metallurgical complex of Ukraine with technical solutions to improve the quality of their products and increase the efficiency of production. Anton Sezonenko, Technical Director of SAS Engineering Company was interviewed for current study.

The last group of a sample companies consists of suppliers of metallurgical equipment and spare parts and modernizers on more local level, which were represented by Termolit Plus and Gidromehanika.

Termolit Plus was established in 2005 in Ukraine to solve technological problems in the field of iron and steel industry, mainly focusing on introduction of new technologies and efficient use of production capacities. LLC Termolit-Plus specializes in the manufacture and supply of commodities for induction and electric arc furnaces, heating and hardening units and other metallurgical equipment. Nikolay Romanenko, Technical Director of the firm agreed to answer interview questions on company's behalf.

Gidromehanika in Russia has a similar work direction, as it offers commercial services for development of new technologies to solve research and industry challenges, provides technical consulting, project management and integrated engineering. Gidromehanika offers a wide range of modernization and optimization solutions for traditional industries. Out of all companies in the sample, Gidromehanika is one company that is closely tied to research activities in the industry, but due to its business direction has more of a consultancy features. An interview with Director of Gidromehanika, Alexander Kolganov was conducted for this work.

All the interviewed representatives claimed that the companies have had experience of working with European partners; hence their responses are based on obtained knowledge and perception of those established partnerships.

5.2 Nature of Network Relationships and Network Ties

Taking into account the context of present research, data collection and interview questions were primarily focused on the partnerships of Russian and Ukrainian companies within steel industry network with their suppliers from European countries. Interviewees were asked to tell about their partnerships and how they originated, and the responses were quite different.

All eight of interviewed companies claimed that partnerships are formed on the basis of companies' needs and availability of suppliers, which were able to fulfill those needs under favorable conditions. While some of interviewed companies let and waited for suppliers to approach them and provide the offers, others (SAS Engineering Company and Comterm) claimed to conduct active search through several channels for potential suppliers, including web search, publications and participation in industrial exhibitions.

“...Initiative came from our, Ukrainian side and we have been working together for more than 10 years. The relationship was established through participation in the exhibitions and based on the performance records...” (Anton Sazonenko, Technical Director of SAS Engineering Company)

This means that for their suppliers the approach to reach a network of interest was based on provision of advanced technology, which their foreign customers were interested in. Advanced technology combined with accessibility by foreign companies made the partnership possible.

Only one company out of the sample, Comterm, stated that an important partnership emerged from managements' personal contacts with representatives of European company. Based on mutual agreement, two companies started co-operation. Regardless of informal ties with partner, representative of Comterm claimed that company is in constant search for new or alternative partnerships. The rest of the companies in interviewed sample also expressed eagerness to establish more partnerships with foreign suppliers.

“...We are constantly searching, exploring and monitoring the market for new technologies and offers. New players may enter the market and so on. I have to say that such work on our side has brought quite good

results...” (Marat Yegamov, Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant)

“...As we need to support the manufacturing process, we initiate the search and selection...” (Alexander Khobta, Head Engineer of Electrostal)

Meanwhile, companies find themselves in constant search; at least three out of eight companies had admitted to rely on long-term relationship with either initial supplier of equipment, who is now providing company with spare parts, or loyal partnership with their first European supplier.

“...As a result of long search, we found this company in the Netherlands and so far we have been working with them for several years. We are quite happy with this co-operation; I hope they are happy as well...” (Nikolay Romanenko, Technical Director of Termolit Plus)

“...We work with suppliers, from whom the equipment was originally bought. They are the producers of the equipment and therefore, also serve as producers of the spare parts, which should be changed after some time...” (Sergey Eromkin, Head of Purchase Department of VKM Stal)

All respondents described their previous partnership experiences and shared insights of how relationships are established in present. It is notable that all companies expressed the desire to keep long-term partnerships, while they admit to constant search for alternatives that fit their needs and budget more.

5.3 Criteria for Partnership

Evaluation of potential partners is a procedure of common sense in business operations. It is important for any company to estimate whether potential partner will meet expectations and will benefit the company. Eight companies from selected

sample were asked to provide their outlooks towards potential partners, their reputation and co-operation with competitors.

Regardless of the size and specialization of interviewed companies, they all agreed that their partner selection process is based on competition among suppliers for the best offer.

“...In any case the selection is competition based; let it be raw materials, equipment...” (Marat Yegamov, Head of Materials and Technology purchase of OJSC Altemyevsk Pipe Plant)”

Common factors that distinguish the favorability of the offer were named to be the quality of the products, price, warranty conditions and delivery time.

“...As we get their offers, we review it in terms of the price, delivery and warranties conditions and after thorough analysis make decision...” (Alexander Khobta, Head Engineer of Electrostal)

“...According to the suggested terms/conditions, whether they are reasonable for us: technical characteristics of the product, delivery speed, presence of warehouses nearby...” (Alexander Kolganov, Director of Gidromehanika)

At the same time the compound of all the factors very rarely give the prevalence to particular company-supplier. All of the terms and suggested offers have to be reviewed individually, as all customers have their own individual needs.

“...It is very individual kind of process and there is no standard scheme for it. We do search for a base to choose from, for example we find 3 companies and then look at their terms. Some of them might offer products to test – so we can try it, touch it, and see how it works...” (Nikolay Romanenko, Technical Director of Termolit Plus)

Measurable factors and criteria are important for partner selection; however, partner's reputation can also have a strong impact on decision-making process. Majority interviewed companies stated that reputation is highly important and in some cases it can be a decisive factor to pick one supplier over the other.

“...Reputation plays important role in everything – business and everyday life. For us, it is quite important to know how long the firm has been on the market, so we research other companies have used them as supplier and how is that equipment working there...” (Mikhail Zharkov, Head of Manufacture of Severstal TPZ Sheksna)

“...Reputation is quite important. Those European companies we work with are known leaders in their specialization with a long history. Their reputation affects our business also...” (Anton Sezonenko, Technical Director of SAS Engineering Company)

Though reputation is considered to be important, at least two companies in the sample out of eight expressed some doubts whether reputation should have an impact on partnerships, as in certain industries it can be overrated or in some cases price factor might outweigh the reputation.

“...Price has more impact on partner selection, if the price is not affordable – no one will work even with highly reputable company...” (Alexander Khobta, Head Engineer of Electrostal)

“...It is more important to look at the technical characteristics, rather than rely on stereotypes. Everything should be compared. This known slogan «European quality» no longer has effect on us, as we look for the product features...” (Alexander Kolganov, Director of Gidromehanika)

All representatives of sample companies expressed very positive attitude towards partnerships of competitors with potential suppliers. Some of respondents even claimed that it helps them to evaluate suppliers better, according to the work results and experiences of competitors.

“...If competitors use certain equipment – it is an opportunity for us to see how they have used it, what are the results and whether we need this equipment also or not. So, there is no problem with that...” (Mikhail Zharkov, Head of Manufacture of Severstal TPZ Sheksna)

“...It is business that does not require monogamy. If the products are good, it is normal if competitors decide to work with them also...” (Alexander Kolganov, Director of Gidromehanika)

In the case of SAS Engineering Company, an additional criterion that influences partner selection is the demand for suggested product on Ukrainian market. As

company acts as supplier to its clients in domestic market, company's management wants to make sure that the purchase of certain product is justified and expedient.

“...We also talk to our Ukrainian clients and try to identify if found solutions at the fair is something that they are interested in and whether they would buy it from us. Based on the results, we decide whether it is worth to initiate the co-operation with those companies...” (Anton Sezonenko, Technical Director of SAS Engineering Company)

5.4 Role of Intermediaries in Network of Relationships

Intermediaries are known to be active players in networks, who contribute to establishing ties among other players. Often, for a role they take on in networks as intermediaries, they obtain commission from the deals between companies that were brought together.

In the sample of eight companies, only one has expressed a positive attitude and acknowledged valuable influence of 3rd parties on partnerships establishment.

“...Intermediaries play a really big role. Direct dealing with western companies is quite difficult, so we are mostly working with their dealers and representatives. Intermediaries do help us to get better solutions...” (Alexander Kalganov, Director of Gidromehanika)

The importance of intermediaries for Gidromehanika could be reasoned by the specific focus of a company on engineering and relatively limited size, which may suggest that company lacks an operating structure that would be able to deal with relationships establishment and maintenance, especially foreign ones.

Other companies expressed neutral or even denial attitude towards involvement of 3rd parties. Middlemen in business relations increase transaction cost, while their involvement can be easily eliminated or reduced.

“...No, we do not rely on intermediaries too often, usually we work with manufacturers directly. Intermediaries cause an increase in

transaction cost; therefore we try to avoid this additional spending...”
(Sergey Yeromkin, Head of Purchase Department of VKM Stal)

“...Intermediaries can be useful, especially when working abroad – it can be very difficult dealing with foreigners without 3rd parties involved. But we try to work directly, even though some foreign companies are not open to direct co-operation...” (Alexander Khobta, Head Engineer of Electrostal)

“...Maybe on first stages, but later on we do not see the use of intermediaries viable, as it increases transaction cost. So we try to get away from it and work with partners directly...” (Nikolay Romanenko, Technical Director of Termolit Plus)

Two out of eight interviewed companies’ representatives had very little to say about intermediaries and their role due to particular way that those companies establish their business partnerships. Those two companies represent global manufacturers of steel products and in their daily work with potential partners they rely on Electronic Trade Platform, which could be considered an “intermediary”, yet it serves more of a facilitator role for partner selection.

“...Electronic Trade platform serves as an operator of partnership establishment – as it recognizes the rights of suppliers and customers, as those are the conditions of participation in this platform trading...”
(Marat Yegamov, Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant)

As it cannot be considered as intermediary in its standard definition, the importance of Electronic Trade Platform will be opened further in forthcoming chapter, which covers the process of relationship establishment.

5.5 Process of Relationship Establishment

Process of relationship establishment is important and time-consuming. As it was previously mentioned companies imply certain criteria to evaluate and select most favorable supplier. What is more, only few of interviewed companies admitted to conduct an active search for future partners, while others allow supplier to initiate

cooperation with a help of suggested offers. All companies involved in any heavy industry feel a need for certain materials or spare parts sooner or later; therefore, they can hardly ever be passively waiting for proactive suppliers to reach and fulfill those needs. During the interview, companies were asked to describe how they perform the process of scouting. The responses and described operations were quite diverse within different sample groups; however, there were similar notions among representatives of the same group.

Two global manufacturers of steel products represented by Severstal TPZ Sheksna and OJSC Altemyevsk Pipe Plant were found to use Electronic Trade Platform extensively in order to fulfill their needs of materials and equipment. Both represented companies have specially dedicated department (Commerce Service), which is responsible for scouting of potential suppliers, evaluating their offers, analyzing and choosing the most appropriate partner and establishing partnerships with the selected ones. Considering the size and amount of resources those two big companies have, they can afford to dedicate a special entity towards this work, especially, since such massive manufacturing units are tended to feel a need for certain materials and supplements on daily basis.

“...Commerce service that has a full responsibility of conducting the search. A request for needed product is generated and sent through Electronic Trade Platform, then commerce service makes decision depending what there is available within the Platform ...”(Mikhail Zharkov, Head of Manufactory of Severstal TPZ Sheksna)

Electronic Trade Platform serves a role of operator and allows the companies to trace new market entrants with possibly better products and also make a purchase decision based on the best offers. Head of Manufactory of Severstal TPZ Sheksna and Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant specified that the use of platform encourages fair competition between participants and as a mediator of the partnerships establishment it also serves as a protector of the rights of all involved parties. During the interviews, those two particular respondents highlighted how beneficial and convenient is the use of the platform.

“...Potential participants can clearly see what facility requires, from provided list, specifications, timeframe when the need should be

fulfilled...” (Marat Yegamov, Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant)

Use of Electronic Trade Platform makes the process of search and comparison of offers a lot easier for the companies, especially big ones like global steel manufacturers. While being a convenient tool to monitor the offers of suppliers, it still requires personal touch and evaluation of potential suppliers with non-measurable factors.

“...Leaders of 1st and 2nd echelons are analyzed according to their previous supply experiences – were there any violations or problems (this information is also available on the platform? And internal decision-making leads to selection of the leader...” (Marat Yegamov, Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant)

Apart from fulfilling daily needs with a help of Electronic Trade Platform, global manufacturers also refer to tender selection of supplier when they seek to fulfill bigger and costlier need. Tender operation process is similar to the regular platform exchanges, however, due to its higher price scale; the selection process is more thorough and might take several months to make a decision. Tenders often take place in the whole group of the company, which adds complexity to decision-making process.

The rest of the companies that were interviewed for the study, however, do not refer to Electronic Trade Platform as a source for potential partnerships. Two companies that were assigned to the group of local manufacturers of steel products and were represented by VKM Stal and Electrostal had similar perceptions on their relationships with suppliers – both companies rely greatly on old, loyal contacts and refer to them when they feel a need for particular product.

“...As we work with old suppliers mostly, we just search them in database (that already has their contact information) and send requests with our needs...” (Sergey Yeromkin, Head of Purchase Department of VKM Stal)

Despite loyal partnerships for several years, both local companies producing steel products do not eliminate the chance to establish agreements with alternative

suppliers. As both representatives claimed during the interviews, the process of search is quite trivial and rarely might involve already established network connections.

“...Search is mostly conducted through internet and among companies we might know, but mostly internet...” (Alexander Khobta, Head Engineer of Electrostal)

Local and global suppliers of steel manufacturing technology show considerably more proactive approach in pursuit of partner relations with their potential suppliers. All four companies admitted that the search for particular supplier is commonly initiated through several channels – Internet, industry exhibitions, conferences and publications. Once the particular supplier is found, companies contact them and maintain correspondence for negotiations. An attitude towards exhibitions as a source of useful contacts varies within the sample group.

“...Exhibitions and mostly international exhibitions are the way we look for partners. Search via Internet is good, but the personal communication and interaction during exhibitions/fairs is more efficient and productive...” (Anton Sezonenko, Technical Director of SAS Engineering Company)

“...We use Internet for our search, earlier we would rely on exhibitions as a channel, but today this form of search is getting old...” (Alexander Kalganov, Director of Gidromehanika)

It is a matter of preference for the companies how to get new contacts and establish business partnerships. Notably, all four companies stressed the importance and convenience of the Internet search, as it outperforms the other means of scouting.

Expectations from future partners have a great effect on partnership establishment and maintenance that is why for current theme respondents were asked to specify what they commonly expect from their partners. It is not surprising that the most common expectation from suppliers is to provide a product of good quality. As it was mentioned earlier, product quality is one of criteria that companies rely on in decision-making about particular supplier.

“...More attention to quality, as price does not have as much weight on decision to establish relationship as quality...” (Ilya Nekhamin, Development Director of Comterm)

After the product quality, the quality of relationships was stated as expectation from European partners. Indeed, European companies are believed to value their business relationships more than Russian and Ukrainian ones; therefore, companies from those emerging markets appreciate positive attitude from western partners and some even claim to learn from their examples.

“...Readiness to work and co-operate with us. We are ready to review any terms and negotiate towards new partnerships...” (Nikolay Romanenko, Technical Director of Termolit Plus)

In relation to partnerships with foreign companies, interviewed respondents were asked whether they tend to trust western companies and their technology or local ones and vice a versa. There was no definite answer from any respondent, as they all claimed that their trust is tied to individual characteristics and reputation of particular firms. Reputation, as was stated earlier, is also quite sensitive factor in relationship establishment and usually serves as an additional element in partner selection. Considering that, all companies stated that measurable factors evaluate their partners; the following response would be the most straightforward attitude towards trust for potential partners:

“...No, we equally do not trust anyone...” (Ilya Nekhamin, Development Director of Comterm)

5.6 Assessment of Relationships

An assessment of previous and current relationships allows evaluating the overall value of business relationships, identifying existing problems and attempting to overcome them and avoid in following partnerships. During interviews, representatives of the companies were asked to describe what made business partnerships worthwhile and difficult and how the difficulties were handled.

Most of respondents stated that traits like precision, clarity and obligation are highly valued in their partners, as some of Russian and Ukrainian companies should take example of those qualities.

“...Obligation. This is what our local partner lack, as they are hard to rely on. And the 2nd is – diligence...” (Alexander Kalganov, Director of Gidromehanika)

“...It is very important for them that no matter what they do, it is done till the end and with maximum quality. These are main reasons why we like working with European suppliers – result orientation, quality and performance of the work...” (Mikhail Zharkov, Head of Manufactory of Severstal TPZ Sheksna)

Working together with foreign partners implies certain misunderstanding and challenges, which may have a great impact on the performance of both parties. Respondents of interview tried to specify the constraints they have experienced in co-operation with European companies. While five out of eight interviewed representatives claimed that they did not experience any serious problems with their partners, there were some misunderstandings in communication and concealment of information, but they did not affect the performance of the parties.

“...Difficulties exist, but there are not too many – as commonly we get to deal with specialists and professionals in the field, who know what they are doing. There are a lot of questions though, but not difficulties...” (Mikhail Zharkov, Head of Manufactory of Severstal TPZ Sheksna)

Notably, two out of eight companies, Electrostal and Termolit Plus mentioned that even if the troubles in co-operation arise, they commonly come not from misunderstanding with their partners but from bureaucratic procedures that their partners get stuck in.

“...We rarely experience problems and even if we do, they arise due to the Ukrainian laws/regulations and our Customs Authorities – there were cases of when products delivery was delayed greatly...” (Alexander Khobta, Head Engineer of Electrostal)

“...In the Netherlands it is a lot easier, for example, there is no need for contract, and the contract is needed for our Ukrainian customs,

banks, tax office...” (Nikolay Romanenko, Technical Director of Termolit Plus)

Only representative of VKM Stal expressed some negative insights towards their European partners' norms of operations. Head of Purchase department was not impressed with efficiency and delivery speed that their partners demonstrated, as it put constraints on VKM Stal manufacturing process.

“...Any manufacturing process requires certain speed, in order to increase the volume of production. So you try to resolve the constraints faster, so that production can be speed up, however in Europe, it is common to stick to the set dates and deadlines firmly...” (Sergey Yeromkin, Head of Purchase Department of VKM Stal)

Positively, all interviewed representatives agreed that all arising minor constraints can be easily resolved and even the cases of bigger constraints, as suggested by VKM Stal representative, can be tolerated; therefore no need for relationships terminations is needed, when it comes to small challenges. Distinctly, selected sample of Russian and Ukrainian companies are ready and willing to work to resolve such issues with their partners.

Data collection for current researched relied on semi-structured interviews, which allowed researcher to pose additional questions. It seemed quite useful to ask respondent for advice to companies that are aiming to become their future suppliers. From obtained responses, one could see that interviewees have different opinions and insights of what European companies, entering Russian and Ukrainian markets, should take into account.

Majority of interviewed representatives suggest learning more about Russian and Ukrainian mentality, in order to understand how everything works in those markets. Similarly to mentality, a deeper knowledge on work and technology conditions were also stated as suggested preparation steps.

“...Take into consideration our mentality. Not a secret, that Russian and European people are different in terms of world scope, temperament and so on...” (Mikhail Zharkov, Head of Manufactory of Severstal TPZ Sheksna)

“...Participating in exhibitions/fairs and checking the publications to gather more information about market, current players. Usually, foreign companies do not have up to date information on the current market conditions and the conditions on the operating facilities...”
(Anton Sezonenko, Technical Director of SAS Engineering Company)

“...If it comes to entering Russian market, company has to reason it pretty well. They have to understand that it can take a long time for negotiations to turn into a purchase. Decisions take really long time to make, so it should be really taken into an account. The timeframe from contact to contract can be very-very long...” (Ilya Nekhamin, Development Director of Comterm)

Representative of Termolit Plus suggests that besides learning and trying to understand the peculiarities of doing business on post-soviet territories, foreign companies should be prepared to undertake the practices that are unacceptable in their domestic markets, according to the cultural and legislative norms.

“...Unfortunately, Ukraine is not Europe, and you have to know and accept the fact that you have to bribe sometimes. The schemes and principles are quite different. Foreigners do not always understand what and why they have to pay for something, but this is how it has been done in our country...” (Nikolay Romanenko, Technical Director of Termolit Plus)

Other than taking into the account the cultural norms and market conditions, interviewees from other companies suggested to look into the service foreign companies intend to provide on foreign markets.

“Technical support or service might help European companies in producing and selling their products, as customers of the equipment want to make sure they can get the assistance in maintaining the product” (Marat Yegamov, Head of Materials and Technology Purchase of OJSC Altemyevsk Pipe Plant)

Two out of eight interviewed respondents suggest overlooking the partnership terms that foreign companies may plan to impose when dealing with Russian and Ukrainian partners. Notably, flexibility in order size and payment terms are things that those companies would love their foreign partners to offer.

“...Consider being more flexible as suppliers with their time of delivery. Be ready to break down or review their size of shipment (consignment)...” (Sergey Yeromkin, Head of Purchase Department of VKM Stal)

“...Review the payment terms - such as postpone of payments, but they do not work like that. 100% payment in advance is too much, as we are also taking risks of not getting the product...” (Alexander Khobta, Head Engineer of Electrostal)

And the last but not the least suggestion from representative of Gidromehanika, implies that foreign companies should look at themselves first, focus on their product quality and align their actions with higher goals.

“...Western companies succeeded in classification and putting things in order. So they have to set their priorities right when entering markets – pay closer attention to the content, rather than the form...” (Alexander Kalganov, Director of Gidromehanika)

6 DISCUSSION

Current chapter is aimed to sum up the work for current research by pointing out general findings, providing answers to research questions and presenting theoretical and managerial implications. Also the viability of the study is presented in this chapter and in the end the limitations and suggestions for future research are outlined.

6.1 Findings of the study.

Russian and Ukrainian steel markets have a large variety of actors, embedded in industrial network through different purposes – miners, founders, manufacturers of steel products, manufacturers of foundry equipment and parts, producers of fabrication supplements, research institutions, industry consultancies and modernizers and many more. All the actors have different experience in the industry and position in network, therefore their impact and awareness of other network actors also varies. Interviewed representatives of the companies were asked to describe process of how they manage the search for suitable supplier and then establish partnership with them in practice. According to interview responses during empirical studies, major networking approaches were identified among the sample of interviewed companies.

All eight interviewed companies agreed that relationship establishment with their partners aroused on the basis of their needs and availability of favorable supplier of that need. Regardless of the size and focus of interviewed companies, respondents claimed that partner selection was made on competitive basis, depending on the offers of suppliers. Attractiveness of the offer is tightly linked to the quality of products, price, warranty conditions and time of delivery, rather than embeddedness to the same industrial network.

Reputation of potential partner was claimed to be important by six out of eight companies, however, it had an effect on decision-making process for one supplier

over the other, provided that both had favorable offers. Other two companies expressed indifferent attitude towards reputation and its reliability, as they claimed that factors like price and technical characteristics outweigh an abstract concept of reputation. Notably, all interviewees claimed that partnerships of their potential suppliers with existing competitors help companies not only to learn about those suppliers but also consider them for their own production. Intermediaries and their impact on business relationships were recognized as important by only one respondent out of eight. The rest of the interviewed companies perceive middlemen as unnecessary element that increases transaction cost.

When it comes to the means and ways the partnerships are established, the relation to the size of the interviewed companies were identified. Two out of eight companies, notably the ones that were classified as global manufacturers of steel products, stated that their search and selection of suppliers relies on Electronic Trade Platform. Those companies find themselves in need for either raw materials or spare parts of equipment nearly on daily basis, which is why they use platform in order to fulfill those needs with a help of available suppliers. Severstal TPZ Sheksna and OJSC Almetyevsk Pipe Plant (APP) admit that Electronic Trade Platform serves a role of operator of partnership establishment, as it provides the means for customer companies to send requests with their needs and at the same time platform offers opportunities for suppliers to go after those requests and suggest their offers to companies. It is important to note that such B2B interaction between customers and suppliers encourages partner selection on competitive basis, rather than giving preference to those they are acquainted with.

During the interviews, respondents from both global manufacturing companies stated that all prospect suppliers of particular group of a need are evaluated equally, based on the offers and terms they suggest. Even suppliers that have been working with company of several years are put into the same conditions during the selection of leaders of 1st and 2nd echelons. Once the leaders are identified, based on the favorability of their proposals, they are then examined on previous supply experiences – whether they incurred any problems or violations. The existence of common database for customers and suppliers is claimed to be highly beneficial to all involved parties, as the more players involved in it – the more efficient way of

cooperation is likely to occur. Depending on the cost of a purchase, this process of supplier search for global manufacturers can take a form of a tender, which works in a similar way, however takes a lot longer from the point of first contact with suppliers to the final purchase decision. Tender process may take several months and requires high commitment and concentration from supplier, even though may not guarantee sealing the deal. Electronic Trade Platform and tenders, however, are not the only channels that global manufacturing companies rely on in search of potential partner-suppliers. Usually, big companies have a whole department working on the search of favorable partnerships; those are usually called either purchase department or commerce service. The search may be conducted through several channels, depending on the specificities of product needs and preferences of the departments towards particular channels: web search, publications, industry exhibitions, etc.

Search for suppliers through Internet and during international industrial exhibitions were stated as regular procedures for remaining six companies out of interviewed sample. While some of them (SAS Engineering Company) tend to rely more on the contacts obtained through personal interaction during exhibitions, other claimed to prefer web search as a most efficient channel. Approachability of INVs through those channels is highly recommended, since customers in their nature are interested in alternative technical solutions and are open to establishment of new partnership, as long as they suggest favorable terms. Two out of eight respondents claimed that primary initiative for relationship building came either through mutual agreement with personal contacts or aroused from the offer from supplier's side (or with a help of intermediary). The rest of responses did not minimize the importance of suppliers' proactive approach, however their partnerships are commonly initiated with customer's request for certain needs.

Along with quality of products, all eight respondents expressed great appreciation for quality of relationships with suppliers. Known for obligation to terms of agreement and clarity in their partnerships, European companies in general are perceived as trustable companions. Even though, three out of eight interviewed Russian and Ukrainian companies have experienced obstacles in working with western partners in the past, those difficulties did not harm partnerships nor made them less attractive.

6.2 Answering the Research Question

The primary goal of current research was to estimate the role that networks play in internationalization of INVs and how those INVs can approach Russian and Ukrainian steel industry networks and benefit from them during their market entry process. Previously studied literature has highlighted an importance of networking for internationalization process and development of entrepreneurial firms. At the same time, quite extensive attention was given to the peculiarities of business operations in emerging economies, particularly focusing on network phenomenon in those markets. However, what have not been properly studied are the ways that new small entrant (INV) can obtain positions in target network and use it for their benefit during entry process. Researcher made an attempt to combine the studies on network internationalization, INVs internationalization and networking peculiarities in emerging economies and align them with empirical data from specific context of steel industry in Russian and Ukrainian markets.

The main research question of the study was stated:

How INVs can establish and utilize network relationship prior and during international entry? (In the context of Russian and Ukrainian steel industry)

In order to get the answer to the question and provide logical and reasonable grounds to it, the main research question was split into two sub-questions, which not only simplified the stated research problem, but also helped to create a clear structure for this study. First sub-question was aimed to look into the characteristics and existing network players in Russian and Ukrainian steel industry markets. Second sub-question was stated to investigate how those players commonly perceive and obtain partnerships with foreign companies network partnerships, based on the ways they operate and according to their characteristics, covered through the first research sub-question. Even though, these sub-questions may seem to focus on the empirical part of the study, they have helped to shape up and put theoretical framework into a structured logic. In addition to that the two sub-questions serve as a basis for

interview themes and questions and allowed to analyze obtained data in relation to the purpose of the study.

Industrial network theory stresses that the knowledge of other actors in the network has direct impact on firm's decision making (Axelsson and Johanson, 1992; McKiernan, 1992). Establishing relationships with actors of foreign target network leads to accumulation of knowledge on how the network and markets operate and also provides the ground to start business operations within that network. Firms' ties within the network were found to be important means for sharing knowledge; those ties also serve as motivation to spread knowledge as interaction within a network encourages the collaboration between actors. Having a network orientation and, consequently, identifying the roles and strengths of the actors within it provides the firm with an understanding of possible constraints and opportunities for its operations (Axelsson and Johanson, 1992; Johanson and Vahlne, 1992).

Depending on the nature and strength, there were several types of networking ties identified by scholars: strong and weak, calculative and reactive, active and passive, formal, informal and intermediary, competitor ties. By their entrepreneurial nature and opportunity-seeking behavior, INVs devote little effort to collecting country specific institutional knowledge. Firms often obtain this knowledge through their network ties. Emerging markets that experience transition of ownership and changes in formal and informal institutions are especially challenging for new foreign entrants. While the transition is taking place in relatively slow pace, local business networks are guided and regulated by informal rules and relationships, which might be difficult for an outsider to comprehend and adjust to (Toppinen et al. 2007). Necessity to belong to business network and establish ties with local market players is highly stressed for emerging economies, because of the changing environment and informal rules of doing business. So, what type of network ties Russian and Ukrainian steel industry can offer for INVs?

Russian and Ukrainian markets contain a high diversity of actors involved in steel industry network with various purposes. According to the specialization, size and availability of resources those actors have different impacts on overall development of the network. Regardless of their size and specialization, all actors within the

network are driven by profit generation and, therefore, strive to obtain favorable partnership ties that are able to provide gains for both parties. This drive not only makes partnerships possible, but also encourages constant search and accumulation of alternative ties, that could help to either economize manufacturing process or enable greater earnings. Considering importance of network ties in emerging markets, empirical study supported the theoretical conceptions that relationships are built on the aspiration of mutual benefit between two parties.

Despite the common drive, some differences in establishment of ties with partners were found among interviewed companies. Global manufacturers of steel products, that hold a beneficial place in the whole network, allow themselves to be rather passive and selective in partnership establishment. Being aware of their attractiveness as a customer to prospect suppliers, they expect suppliers to approach them with their offers, which is often executed through Electronic Trade Platform, when it comes to frequent needs of manufacturing units and tender comities, which are publicly announced, when it comes to specific and more unique needs. Global manufacturers usually belong to vertically integrated business entities and therefore possess a great amount of financial resources in their hands, which allows them to maintain a separate department, dedicated to the search for more favorable supply offers and attractive technological solutions. Besides, Electronic Trade Platform and tender announcement, those big actors of the networks also actively search for alternative partners via Internet.

The rest of interviewed companies in selected sample have demonstrated more proactive approach towards networking and establishing ties, as they claimed to take initiative of partner search in most of the cases. Channels like Internet search, international exhibitions dedicated to steel industry and publications were stated as the most popular means companies exploit in order to find and establish favorable ties.

What does that mean for INVs that aim to build the ties with players of that network and enter Russian and Ukrainian steel industry market? INVs aiming to enter foreign market have to understand that partnerships with network players are most commonly established on the basis of selection process, which implies competition

among supplier to provide the best offers. Nepotism (favoritism, based on informal ties), which was highly prevalent in planned economy, is slowly atrophying in emerging economies as companies today are interested in relations that benefit them the most. As suggested by the theoretical construct and practical experience, new entrants to the network should strive to match their capability and unique competence with complimentary needs of the customer. If INVs are able to fulfill an offer of customer under favorable terms, they are likely to accomplish the relationship establishment.

INVs today commonly enter markets with their advanced technology product, which may even lack direct competition on the market. Hence, INVs should strive to attract their potential customers by creating unique value for them and suggesting favorable term and conditions for the partnerships. Of course, new entrants should be aware of operational practices, which various network actors exploit. According to findings of current research, INVs have to ensure their approachability through popular channels, used by potential customers and also maintain proactive contacts with attractive network actors. Being positioned within a foreign network allows the internationalized firm to develop relationships that, in turn, can lead to further linkages with other actors (Axelsson and Johanson, 1992; Johanson and Vahlne, 1992; Headley and Wilson, 2003) as a continuous process. Further on, INVs may not only use their current partnerships as information source, but also rely on them for referrals.

6.3 Theoretical Implications

Theoretical implications of current study come from aligning constructs of the theory with practical findings of empirical research. Theoretical part of current work covers relatively large amount of notions and views on network theory, internationalization of INVs and importance of networks in emerging economies, not to mention the peculiarities of operational environment within selected context of steel industry.

In third chapter of current work a distinct attention was given to network theory and INVs internationalization by means of networks. While two theoretical outlooks

closely revolve around networks, their perception of phenomenon is slightly different. According to network theory, networks act as drivers for firms' internationalization, while for the process of INVs internationalization through networks, they are perceived as means. This different view on the same thing does not mean that theoretical constructs oppose or contradict each other; in fact diverse approaches complement each other, as it was supported by empirical study in current case.

According to Sepulveda and Gabrielsson (2013), INVs face various problems like newness and foreignness as they enter foreign markets together with overall lack of resources. This comes in line with responses of interviewed companies, which all stated that their western partners rarely understand the way markets operate in Ukraine and Russia. However, lack of experience on particular markets does not mean that new entrants are not able to find creative ways to overcome constraints and adjust to existing conditions by building networks and attempting to create partnerships, as suggested by Gabrielson et al. (2008). Empirical results also showed that while new entrants to the market are not well aware of conditions, they are often willing and able to bear with constraints and ensure that their partnerships with local firms run smoothly, as all respondents claimed they have never experienced problems with their foreign partners that would lead to termination of agreement.

Network ties are the means to obtain organizational learning (knowledge on foreign markets operations), considering that INVs lack time and resources to gain experiential knowledge themselves. A network with foreign market players allows firms to gain understanding on foreign business practices and institutional norms during their internationalization process. While, it is a competence, that is hard to imitate, it still offers INVs a certain frameworks to rely on, when entering a foreign market. Fey and Shekshina (2008) suggest that accumulation of social capital, by employing a local specialist or foreign professional with experience in emerging markets can be used as an efficient strategy by firms. On practice one respondent, who claimed their foreign partners relied greatly on employee with broad experience in Eastern European markets, supported this approach towards internationalization process. However, INVs may not be able to afford it on the early stages of internationalization, due to overall resources constraints. Due to specific

characteristics of new entrant-firms, they cannot be expected to stick to theoretical beliefs and employ a local assistant, however entrepreneurial creativity can come in handy when searching for alternative ways to gain knowledge on the market. Often, the INVs strength comes with unique product and value they create for their customers, therefore firms can rely on the product itself in order to win their customers and potential partners. All interviewed companies claimed that they either go out their ways to find out about new solutions on the markets by taking part in exhibitions, conducting trivial Internet search, reading recent publications or they are open to new contacts and take their time to consider new solutions. In accordance with practical ways of networks establishment, theoretical constructs suggest several paths that new entrants may undertake in order to obtain partnerships with network players. Opportunity seeking (Sharma and Blomstermo, 2003) and strategy of exploration (March, 1991) often characterize internationalization process of INVs. Being new to the markets, INVs feel a need to declare them and become known to existing network players; this requires proactive search and exploitation of opportunities that sometimes can arise from INVs networks on domestic market or even certain individuals. Network development process both in theory and practice appears to be a combination of proactive and reactive actions taken by INVs, as there are no concrete rules that new entrants should follow steadily. Role of a founder of INV and founder's personal network, are claimed to be of great importance in theory, though in practice only one interviewed company (Comterm) confirmed the existence of partnership that was based on personal contact.

Networks, their practical importance and theoretical expectations came in line during the current study. It can be especially noted when different types of network ties are reviewed separately. Network theory often implies that firms act upon the opportunities that their networks hide for them, which amplifies that those ties exist prior internationalization decision is made. As it was earlier mentioned, INVs are able to nurture their network ties by finding creative ways to incline market network to them, the variety of network ties suggested by network theory comes in handy for new entrant firms to consider, as practice shows they can rely on newly obtained ties.

Network theory suggests that weak network ties might be more beneficial for INVs entering new markets, as it allows companies not only stay flexible with their

partnerships, but also enhances their chances to obtain further ties through existing ones. In their search for knowledge, firms can go outside their existing channels and ties (Sharma and Blomstermo, 2003), so the less they are dependent on existing ones, the easier it is for them to go after new partnerships. In practice, this suggestion is supported by responses of all interviewees – companies, regardless of their size and specialization, find themselves in constant search for cost efficient offers, better quality materials and favorable partnerships. While they all claim that they do value their current partnerships and feel hopeful to continue business cooperation with them, all respondents, however, add that they would keep those relationships alive as long as the conditions are favorable to them. Hence, weak network ties are more beneficial to INVs as they not only provide flexibility, but they also eliminate dependence on one customer.

According to the responses of all interviewed companies' representatives and as suggested by network theory, competitor ties were found to have a positive effect on INVs entry into the network. Competitor networks offer its members possibility to exploit resources, knowledge and connections of other firms belonging to the network (Bernal and Johnsen, 2002). Competition among companies presumes certain interaction between them, which commonly leads to information and knowledge exchange. For new entrants to the network, existing competitors may serve as information source for potential customer base. At the same time competitor ties work the other way too, prospect customers can source their suppliers through their competitors. In such cases, competing companies can even rely on each other's references for perceived supplier. All interviewees expressed positive attitude towards suppliers, who also co-operate with competing firms; this highly supports the value of competitor ties, as suggested by network theory.

Formal, informal and intermediary ties within networks may have effect on INVs internationalization. Informal ties though, may be quite rare case in internationalization process, as they are represented by personal and family relationships. Yet, even in selected sample of companies, informal ties had direct effect on partnership establishment; at least it was relevant for one of the companies in a sample (Comterm). Formal ties may have more influence; however, interview responses suggest that decisive factors for co-operation revolve around the offer from

supplier, rather than the fact of being acquainted. Such relationships are relatively important for partnership establishment, but should not be expected as guarantee, as in theory (Coviello and Munro, 1995) formal and informal ties usually serve as determinants of specific market entry and entry mode.

According to Gabrielsson et al. (2008) intermediaries proved to be critical for network entrance, especially for those INVs that did not have any existing formal or informal relationships on the foreign market. Indeed, for new entrants, that lack knowledge on market operational environment and have not yet developed competence knowledge on how to overcome existing constraints and barriers, 3rd parties may do good service in linking them with proper network players. In emerging economies, this notion may seem to be of really high importance, due to informal constraints in form of cultural and social conditions, which can be challenging for an outsider to comprehend. Seven out of eight interviewed representatives of Russian and Ukrainian companies, however, claim that role of intermediaries is somewhat overrated. Respondents stated that they may rely on help of 3rd parties on the early stages of partnership establishment, but they prefer to eliminate an additional link in a chain to decrease the transaction cost and eliminate misunderstandings. Meanwhile, at least two out of eight interviewees claimed that western companies often lack appropriate knowledge on the operational environment in such emerging markets like Russia and Ukraine. Because of that, INVs may experience inconsistencies in their partner relationships or find it extremely difficult to enter the market through familiar practices. The role of intermediaries and their importance, as specified in theory, were found to be contradicting with practice, however there is a clear need for a link between foreign entrants and local business.

According to the theory of internationalization, prospect partner's reputation is an important selection criterion. Yet, according, to the interview responses among companies, reputation was stated to be important, but it was not a decisive factor for business relationship inception. Interviewees stated that the decision of partnership establishment is made on the basis of offer attractiveness and prospect partners' amiability, which supports the Heide's (1994) claim that relationship initiation is a selective process. Potential partners are evaluated on the subject of their performance and reliability, as was suggested by Harvey and Lusch (1995) and supported by

interviewed respondents. Even though, the selective approach in partnership establishment is quite prominent, both theory and practice also suggest different combinations in choice of a partner, such as personal network contact, collaborative partnership of supplier with large customer (in such cases, suppliers often adjust or rearrange their products to fit the customer's needs), client followership (in case of previous collaboration on domestic market of new entrant) and combination of several approaches.

Some scholars (Barney, 1991; Lavie, 2006) perceive networks as strategic relationships, which are very challenging for new entrants to achieve. Network development is seen as a process of intended and unintended components, as it is supported of practical implication of suppliers active pursue of its' customers and apparent possibility to be pursued by customer. Therefore, network development, as strategic choice, has limited outlook for INVs, as often they may not be aware of existing network players, which may play a favorable role of company's internationalization. As supported by interview responses, customers often go out their ways in search for suppliers while the suppliers themselves are not aware of existing possibilities and do not strive to exploit them.

6.4 Managerial Implications

In managerial point of view this study suggests several notions for internationalizing firms to consider when entering Russian and Ukrainian steel industry market and attempting to obtain a favorable position in appropriate network. This study can be useful for management teams of INVs in order to get understanding on the patterns and ways network ties are established in emerging economies and how those network ties can benefit entrants during the early stages of internationalization.

Entrepreneurial nature of INVs encourages an intentional nurture of network development in order to expand internationally. Those companies show opportunistic behavior as they go their ways to reach out for relevant and appropriate network players and obtain their own position in it. However, for successful internationalization, entrepreneurs should be well aware of their business strength and be ready to provide their customers with proper value, so they can seek for most

relevant network ties and exploit appropriate channels to reach their potential partners. An acquaintance with network actor of interest does not guarantee INVs a success in establishing partnership, but it serves as a network tie, which can bring them closer to other actors.

Representatives of all interviewed companies claim that prior establishment of relationships; a thorough evaluation of potential suppliers takes place, regardless of the channels and points of contacts that parties were introduced through. For entrants to the market, this means that they are expected to be ready to fulfill the needs of most valuable representatives of networks. As decision-making process primarily based on how tempting the offer is, INVs are advised to attract their potential customers by creating unique value for them and suggesting favorable term and conditions for the partnerships.

As firms obtain internal resources and knowledge on foreign markets, network content becomes increasingly strategic. This is when INVs' strong Entrepreneurial Orientation meets Strategic Network Management (Sepulveda and Gabrielson, 2013). On practice it means that INVs should demonstrate proactive attitude in network penetration, even if they are not fully aware of possibilities it hides. Once they get familiar with network and its actors, the management team can initiate more strategic approaches to partnership establishment with most attractive customers. This was supported by several respondents, claiming that industry exhibitions are important means for them to learn about new market entrants and products and at the same time present and position themselves in a network. Management team of entering companies is highly encouraged to take part in industry exhibitions and actively network there, meanwhile making sure that they can be easily found and reached by potential partners through other channels.

Quality of partnerships and co-operative approach in interactions play an important role for continuous co-operation (Dorsch et al., 1998). All respondents have stated that while working with foreign partner, some problems and misunderstandings are likely to occur, however, in collaborative relationships most of the challenges can be overcome through negotiations and co-operation. As much as respondents express desire to maintain long term relationships with current partners, they all admit to

keep their eyes open on alternative partnerships. INVs are also suggested to pursue a wide range of weak network ties that allow extensive penetration in network and eliminate dependence on one major network actor. Established ties could be used as links to other actors in the industry.

Difference in accepted norms, resources and infrastructure may lead to difference in partner preference, as representatives of developed and emerging countries tend to have varying expectations towards prospect partners. Interviewees expressed their expectations towards western partners on the basis of their past experience and common stereotypes associated with western work ethics, which included: high quality products and constant work on its improvement, effective planning, preciseness, quality of relationships, clarity, readiness to co-operate. Management of INVs is advised to keep those expectations in mind and implement them into firms operations with partners from emerging economies, particularly from Russia and Ukraine. Despite the general similarity of market environment in Russia and Ukraine, new entrants should also take into account that relations between actors of steel industry in those markets may vary. Therefore, it is also important to be aware of rules and regulations on both of the markets and not expect them to be the same.

6.5 Reliability and Validity of the Study

As a value of any research lies in its trustworthiness, it is worth to test it on that matter. Quality of empirical research can be determined through four tests: construct validity, internal validity, external validity and reliability (Yin, 2003). Validity of research determines whether used research method is sufficient to measure what it is intended to determine, where as reliability depicts the extent to which a measurement/determination procedure leads to the same answer (Miller, 1986). Internal validity is used to evaluate explanatory and causal studies, which does not exactly fit the current research for its descriptive and exploratory nature; therefore internal validity test will be omitted.

Construct validity determines whether appropriate operational measures are used to study the concepts. More sources of evidence and proper linkage between evidence increase construct validity of research. In current work, it was implemented by

conducting of test interview prior interviews of the sample with representative of Finnish company Pinifer, which has been working with Russian company. Theoretical constructs studied prior empirical research and carried test interview allowed defining the most appropriate themes for data collection with selected sample of eight companies. The sample itself consisted of companies that varied in size, production output and specialization, which added versatility to the study. The validity could have been improved if more interviews were carried out; however, for qualitative study, which is aimed to obtain and increase understanding of phenomenon, rather than generalizing, the interviewed amount of companies is sufficient. More to that, similar traits between sample companies of same size and specialization were noted during interviews, which made further interviews unnecessary for current study. Linkage between evidence was thoroughly presented in written report, according to the logical and substantial flow of obtained information.

External validity determines whether conducted study can be applied for generalization purposes, regardless of studied context (Yin, 2003). Semi-structured interviews, which were used for data collection, do not provide enough ground for statistical generalization, as they primarily serve as basis for analytical generalization. For current study, the sample of selected companies was initially divided into small sample groups, according to companies' characteristics as they were predicted to support the similarity within sample groups. The interpretation of the responses, however, was based on the content of the answer, rather than predetermined allocation of companies to certain sample group – all companies were treated as separate entities and were not expected to demonstrate similar behavior to other companies in same sample group. Considering steel industry, as selected context of the study, certain peculiarities, such as prevalence of B2B and B2G relations within the sector, restrict the application of study to for general understanding of market entry to Russia and Ukraine. It is worth to note that selected context had effect on selection of the sample companies to be interviewed, but did not imply restrictions on interview themes and questions. Therefore, results of conducted study can be applied as general for similar industries within selected markets.

Reliability of the study demonstrates the extent to which the same measurement procedure brings the same results, therefore attempting to eliminate the errors in research. In qualitative research, reliability of a study can be achieved by making as many steps as operational as possible (Yin, 2003). Empirical data collection for current study consisted of interviews that were recorded and later on translated from Russian into English language and transcribed. In analysis part of the current work, direct quotations from interviews were used to demonstrate interviewees' opinions accurately and in order to eliminate biases through interpretation by researcher. Researcher's assumptions followed and summarized the statements of respondents rather than retold in researchers own words. Interpretation of collected answers were made as objective as possible, attempting to eliminate researcher's subjective judgment. Nevertheless, it is important to keep in mind that qualitative data collection requires interaction between interviewer and interviewee and considering that researcher and respondents come from the same cultural background, it could have affected interpretation to some extent. Transcripts of interviews and direct quotes from them were provided in current work to enhance reliability of the study.

6.6 Limitations and Suggestions for Future Research

Current study was carried out in thorough manner in order to demonstrate most realistic and sufficient results. Literature review was based on previous studies, theories and assumptions made by several acknowledged scholars in international business research field. Besides prominent theories and universal models, literature review contained of numerous articles, revolving around the studied phenomenon, which contributed to the overall outcomes of the study. Even though, the selection of studied materials and publications on the topic was rather broad, it cannot possibly account to overall amount of research works conducted previously. The most relevant and coherent theoretical constructs are believed to be a basis of current work, even though such selection might have put certain limitations to the study and directed a research into restricted direction.

Theoretical background presented in current work also served as a basis for collection of empirical data. According to own understanding and perception of

studied literature, researcher predefined themes for discussion during interviews. This may also imply certain limitations for further study and analysis of phenomenon, as it is highly tied to individual perception. Semi-structured interview as a mean of data analysis, allowed asking additional questions in order to gain better understanding on the subject. The questions were open-ended, which gave respondents the freedom to answer the question according to their knowledge and relevance. That adds an individual perception from respondents' side. It is also worth to mention that researcher's ethnic background coincides with studied context and it is probable that researcher's attitude might be bound by cultural biases, which affect interpretation of responses.

The last and quite distinct limitation of the study concerns selected context of a study, which is not only restricted by geographically and economically designated areas – Russia and Ukraine, but also limited to particularly specified sector – steel industry. All those limitations imply that current study may be utilized to some degree to explain the ways INVs can obtain network ties and benefit from those ties during their internationalization process; however the predefined context of the study restricts the generalized application of the findings.

Current study has brought some findings on how INVs can take advantage of networks during internationalization process to emerging economies with a specific limitation of selected context – steel industry sector in Russia and Ukraine. Empirical study was conducted by interviewing potential partners (customers) that INVs could approach and utilize as network ties; therefore the study relied on perceptions and expectations of steel industry network actors in Russia and Ukraine. The perceptions and expectations come from previous experiences of working with European companies. In future, a similar research can be carried out to estimate the practices and experiences European companies have to deal with when testing the effects of networks in the same context.

Some of the prominent findings of the study suggest that even though the position of a company in network may play an important role for the pace of its internationalization, growth and development, however, network position does not guarantee target contracts and desired customer base. Network position defers to a

favorability of offer, quality of relationship and advanced technological solution when it comes to establishment of partnerships. This suggests that future research could attempt to determine through quantitative study which of the factors play most important role and to which degree for successful signing of a deal.

APPENDIX

Interview 1. Company: **Severstal TPZ Sheksna**

Interviewee: Zharkov Mikhail, Head of Manufacture

What kind of partner relationships Severstal TPZ Sheksna had with western companies?

...In terms of supply, we do purchase some sorts of commodities, certain equipment; yes of course we do work with European suppliers.

What is decision-making process like in partner selection?

... As we belong to Russian division of Severstal, we do not exactly do what we want here. We do have to make decision regarding particular potential supplier, usually those who provide commodities for equipment – some sorts of devices, details that are used to finalize the product. Before we make a decision, we try to invite representatives to the factory, set up a test for a product – which usually works pretty well, we set up and see how the details work when exploited and see if that suits us or not. If the performance is poor and details are not very strong, it does not suit us, however we do not break a deal just because of that.

How do you rate/select your partners?

...Often we ask suppliers to adjust their products and they are willing to work on it and make it suitable for us. If we are satisfied with the quality, we purchase the trial set of products and track its performance, while we give the suppliers a feedback: whether the interval between changes of details has increased or decreased. Regarding equipment, any sorts of spare parts, reducers, mechanical equipment, it is a bit difficult, as you can't just set up a reducer and see how it works.

What is a role of partner reputation?

...Reputation plays important role in everything – business and everyday life. For us, it is quite important to know how long the firm has been on the market, so we research what other companies have used them as supplier and how is that equipment working there. Once again, it is a responsibility of commerce service to take care of that. They inform me about the companies they find interesting – what they do and how their equipment works, so of course, just anybody is not going to come and set up their equipment for trial on our facility.

How do you feel about prospect partner if you know that they have established relationship with your competitor?

...If competitors use certain equipment – it is an opportunity for us to see how they have used it, what the results are and whether we need this equipment also or not. So, there is no problem with that.

What are the company's expectations from western companies and their technology?

... For me it is – quality and constant work to improve the quality. As the quality of their products has a direct effect on the quality of my product. Therefore, I expect a good quality from suppliers and want to see them constantly work on it.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... Mostly, it is done through the Electronic Trade Platform, which commerce service is responsible for.

What is happening before tendering process? How are the tenders conducted?

... Generally, a request for needed product is sent through Electronic Trade Platform, Severstal is registered there, so the search and fulfilment of needs is done through that Platform. So the commerce service is taking care of that and depending what there is available within the Platform, the decision is made.

What is your European partner's core capability that makes partnership attractive?

... When they start doing something, no matter what, for them it is very important that it is done till the end and with maximum quality. This is their depicting feature, which brings them higher than others – as they want to make sure that whatever they do, it is done right. This is a main reason why I like working with European suppliers – result orientation – the quality and performance of the work.

What kind of constraints did you experience in dealing with western partners?

...Difficulties arise in working with any kind of companies – European, American, Russian... The question is can those difficulties be resolved in constructive manner, most of them can be resolved, as both parties are often interested in co-operation and are ready to discuss the terms. In a form of dialogue/negotiations, it is usually possible to find a compromise that will suit both parties. I have to admit that difficulties exist, but there are not too many – as commonly we get to deal with specialists and professionals in the field, who know what they are doing. There are a lot of questions though, but not difficulties.

What are the most important things western company should take into consideration when starting business partnership in Russia?

...They should take into consideration our mentality. Not a secret, that Russian and European people are different in terms of world scope, temperament and so on. When partners come to Russia for the first time, as we do not know each other – it can be difficult for both sides. And usually those difficulties result from psychological differences. The product, like metal, it does not change whether it is in Russia or somewhere in Europe – it is still metal. But our mentality and psychology should be taken into the account. What else should they consider? The specifics of production of particular companies they will be working with, the goals of their clients and what their production will be like when the equipment is set up and working.

Interview 2. Company: **OJSC Altemyevsk Pipe Plant**

Interviewee: Yegamov Marat, Head of Materials and Technology Purchase

What kind of partner relationships OJSC Altemyevsk Pipe Plant had with western companies?

... We do have partner relations with companies in European and Asian countries.

How did they start and when?

... In general, our partners are the companies that have been working on the market for some time and have earned recommendations for their specific products, showed stable quality and had their products tested through some laboratory experience, so we decided to start the co-operation with them.

What is usually a decisive factor in relationship establishment with your prospect partners?

... The principle of partner selection is quite simple: price, quality, terms of the work.

What is decision-making process like?

... We do select suppliers on competitive basis – as it is a core principle of our company. Gladly, selected companies manage to prove their status of “the best” in certain categories. If their commercial, logistics offer changes, in a way that suggested conditions are not convenient for us, we are, unfortunately, bound to refuse the offer. Since of course the basis for co-operation lies in commerce, the economics of effectiveness. The final decision is up to the head of the facility, at least this is how it works in our company.

How do you rate/select your partners?

... The work on partner search and selection is constant; I think it is a right way to do it. We are constantly searching, exploring and monitoring the market for new technologies and offers. New players may enter the market and so on. I have to say that such work on our side has brought quite good results. In any case the selection is competition based, let it be raw materials, equipment. Production on our facility requires certain materials and equipment, and a group of search specialists works to find potential participants in Russian and foreign markets in order to fulfil our needs. The process is constant and endless. There are methods that specialists use for their search, those methods were founded and incorporated in the company.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... There is a resource Electronic Trade Platform, which supports favourable participation and interaction between customers and suppliers, which is free to all registered participants. On the platform, one can set up a lot for its needs – it could be the needs for group of materials or for single item. Once the lot is formed and conceptualized (given details, specified), the information that this particular facility has a need is sent out to all the registered participants, that belong

to the relevant group of producers – let it be raw materials, equipment parts, etc. (so that people are not distracted by irrelevant information). Potential participants can clearly see what facility requires, from provided list, specifications, timeframe when the need should be fulfilled. Participants are able to provide their bid (offer) through the system; depending whether then can realize it today. They suggest the terms (conditions) in the provided form, seal it with stamps, attach the scan-copy of lot and submit it to the system. The system track all submitted offers in terms of price, timeframes and payment conditions and provides data for analysis. By means of analysis, company chooses supplier to work with. Of course the leaders of 1st and 2nd echelons are analyzed according to their previous supply experiences – were there any violations or problems (this information is also available). And internal decision-making selects the leader. The system confirms and notifies the winner, through the process of lot-closing, while the participants are also notified that they did not get through this time, but often suggested to participate in similar lots. It is very convenient resource, which is used by enormous amount of participants.

What is happening before tendering process? How are the tenders conducted?

...Well, tender is quite a massive word to give for this activity. There are several ways to source the needs from suppliers; most commonly it is based on this “request-offer” type of interaction. The tender process is a bit more complicated and it is highly depended on the cost of the deal. As tenders are costlier and require a thorough selection process – they also take longer to conduct – may take several months, all depends on the costs of the deal. It does take place in the whole group of the company.

What is your European partner’s core capability that makes partnership attractive?

...Standardization, which known European companies managed to achieve. Effective planning that helped them to achieve success. This is something that we find attractive and this is what we try to take example of when working with those companies. So we try to build our business in the same principle. Example: if the request for delivery is for 2 month, we try to make sure that the process takes exactly 2 month including all operations, associated with it.

What kind of constraints did you experience in dealing with western partners?

...We do not have too many and we treat them very seriously, so I cannot say that there were any difficulties. In general, we try to keep good relations so today we do not have any problems.

What are the most important things western company should take into consideration when starting business partnership in Russia?

... I would suggest paying a lot of attention to the quality of the product, as it is one thing that matters a lot to the customer. One time purchase is not interesting to anyone, all facilities are aimed to long-term relationships with partners and maintaining good relations. Technical support of the products, exploitation also matters a lot. Technical support or service might help European companies in producing and selling their products, as customers of the equipment want to make sure they can get the assistance in maintaining the product. It is important that the product fits and works efficiently.

Interview 3. Company: **VKM Stal**

Interviewee: Yeromkin Sergey, Head of Purchase Department

What kind of partner relationships VKM Stal had with western (European) companies?

... We do have contracts with European companies for equipment supply to our premises.

How did they start and when?

... Presence of equipment from European countries requires ordering parts of this equipment from there also.

Who was the initiator of this partnership?

...It was a part of the building process of the facility/factory. From the beginning the equipment that was set up here came from Europe. We work with those suppliers, from whom the equipment was originally bought. They are the producers of the equipment and therefore, also serve as producers of the spare parts, which should be changed after some time. Why changing something if the quality has proved to be good, right?

How do you rate/select your partners?

...We assess the co-operation with current partners quarterly (4 times a year). Everyone has own ways to search for alternative suppliers. When it comes to specialized spare parts – there are pretty much no alternatives, to current suppliers, for raw materials – it is possible to find better options.

What is a role of partner reputation?

... Reputation plays an important role. Positive work experience is always an attractive characteristic of potential partner.

Do intermediaries play important role in partnership establishment?

No, we do not rely on intermediaries too often; usually we work with manufacturers directly. Intermediaries cause an increase in transaction cost; therefore we try to avoid this additional spending. It could happen that dealers of manufacturers may offer a lower price, however it is a doubtful and rare case – if manufacturer gave a discount to its dealer, most likely they are able to lower the cost when selling directly.

Do you tend to trust western companies more than local and vice a versa? Why?

...It all depends, and it depends greatly on the cost of the product.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... As we work with old suppliers mostly, we just search them in database (that already has their contact information) and send requests with our needs. There is probably an alternative way to do that, but we rely greatly on the initial manufacturers of our equipment – as each manufacturer has its own peculiarities and production, so most likely only they can make the most suitable spare parts for us. You can probably change with a spare part of other manufacturer, but not always.

What is your European partner's core capability that makes partnership attractive?

...Some sort of formality or preciseness.

What kind of constraints did you experience in dealing with western partners?

...Efficiency. Any manufacturing process requires certain speed, in order to increase the volume of production. So you try to resolve the constraints faster, so that production can be speed up, however in Europe, it is common to stick to the set dates and deadlines firmly. Asking to deliver something sooner just does not work with them. I doubt that any European will go for it – they have the set up time frame, that are dictated by production process also, so they can not shift it just for us.

Did you have to terminate any relationships due to existing constraints? Why?

...No, we would just wait for products to be delivered and would try to catch up with production volume, when we received them.

What are the most important things western company should take into consideration when starting business partnership in Russia?

...Well, they have to consider being more flexible as suppliers with their time of delivery. Be ready to break down or review their size of shipment (consignment). And of course increase the efficiency and keep the costs in mind – as price and quality ratio is a basis for decision-making, when selecting partners.

Interview 4. Company: **Electrostal**

Interviewee: Khobta Alexander, Head Engineer

What kind of partner relationships Electrostal had with western companies?

...We work with European supplier and also sell the products to our European clients, as manufacturing unit has to order certain things and also manufactures products for further use.

Who was the initiator of this partnership?

... As we need to support the manufacturing process, we initiate the search and selection.

What is decision-making process like?

...It depends on the cost of the purchase, if it does not exceed 100 000 UAH (= 10 000 Euros) and if the price difference between suppliers is not that big, then the purchase department makes a decision. Otherwise, we turn to the higher management of the facility. First of all we send a request for certain product need to potential supplier. As we get their offers, we review it in terms of the price, delivery and warranty conditions and after thorough analysis make decision.

What is a role of partner reputation?

... I would say the price has more impact on partner selection, if the price is not affordable – no one will work even with highly reputable company.

How do you feel about prospect partner if you know that they have established relationship with your competitor?

...Well, it is a healthy market - competition is always present. Even if we were against it, we are not able to do anything about it – we are all human and we all try to survive as we can.

Do intermediaries play important role in partnership establishment?

...Intermediaries can be useful, especially when working abroad – it can be very difficult dealing with foreigners without 3rd parties involved. But we try to work directly, even though some foreign companies are not open to direct co-operation.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

...We already have more or less working database of suppliers, but we do continue the search among Ukrainian companies. The search is mostly conducted through internet and among companies we might now, but mostly internet. Since we have been working for a long time, by now we know what to buy and from where.

What is your European partner's core capability that makes partnership attractive?

... We mostly look at the quality of the product rather than characteristics of a partner.

What kind of constraints did you experience in dealing with western partners?

...We rarely experience problems and even if we do, they arise due to the Ukrainian laws/regulations and our Customs Authorities – there were cases of when products delivery was delayed greatly.

How were the constraints handled/eliminated?

...Depends on what kind of problems. If they are something that we can solve, like custom clearance, we do take care of that.

What are the most important things western company should take into consideration when starting business partnership in Ukraine?

It would be helpful if they considered more flexible payment terms – postpone of payments, but they do not work like that. 100% payment in advance is too much, as we are also taking risks of not getting the product.

Interview 5. Company: **Comterm**

Interviewee: Nekhamin Ilya, Development Director

What kind of partner relationships Comterm had with western (European) companies?

... Now we work with Estonian suppliers and German customers. We do not have too many European partners and we mostly work through companies' representatives.

How did they start and when?

... Personal contacts.

Who was the initiator of this partnership?

... I cannot tell for sure. I would say it was a mutual agreement for co-operation.

What is decision-making process like?

... Depends on the specialization of this equipment and point of modernization. A general director can often be the main decision-maker, if it is expensive equipment.

How do you rate/select your partners?

... According to companies' reputation and quality of their products. Based on the negotiation process with companies we decide what company to work with.

How do you feel about prospect partner if you know that they have established relationship with your competitor?

... Good. We do work with such suppliers.

Do intermediaries play important role in partnership establishment?

... If you consider representatives of companies in Russia as intermediaries – then yes, they do play an important role. A lot of components produced by western companies are purchased through their Russian representative offices.

What are the company's expectations from western companies and their technology?

... More attention to quality, as price does not have as much weight on decision to establish relationship as quality. I also assume, western companies value the quality of relationships more than Russian ones.

Do you tend to trust western companies more than local and vice a versa? Why?

... No, we equally do not trust anyone.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... We use different way to find potential partners – exhibitions, conferences, Internet helps to contact them directly. Very simple and trivial search via search engines, as we look for relevant information. Look for companies that specialize in certain things, check their offers and read the information about the companies. Publications sometimes

What is your European partner's core capability that makes partnership attractive?

... They are kind and honest.

What kind of constraints did you experience in dealing with western partners?

... Some work process misunderstandings and small details that were not taken into consideration.

Did you have to terminate any relationships due to existing constraints? Why?

... No, so far we were able to resolve the problems, without having to terminate the agreements.

What are the most important things western company should take into consideration when starting business partnership in Russia?

... To be honest, I am not able to give an advice. I guess any action should be reasonable, if it comes to entering Russian market; company has to reason it pretty well. They have to understand that it can take a long time for negotiations to turn into a purchase. Decisions take really long time to make, so it should be really taken into an account. The timeframe from contact to contract can be very very long.

Interview 6. Company: **SAS Engineering Company**

Interviewee: Sezonenko Anton, Technical Director

What kind of partner relationships SAS Engineering Company had with western companies?

... We have been importing products from European Union for several years so far. Mostly from Germany.

How did they start and when?

... Initiative came from our Ukrainian side and we have been working together for more than 10 years. The relationship was established through participation in the exhibitions and based on the performance records.

What is usually a decisive factor in relationship establishment with your prospect partners?

... There are many that are taken into consideration. But we pay attention to the quality of products and whether they fulfil the needs of our own clients here in Ukraine.

What is decision-making process like?

... Big decisions are made by founders of the company. When we get the information from the fairs we discuss potential partnerships among owners of the company. Then we also talk to our Ukrainian clients and try to identify if found solutions at the fair is something that they are interested in and if they would buy it from us. Based on the results, we decide whether it is worth to initiate the co-operation with those companies. There is no one clear answer to that as decisions are often made collectively and our Ukrainian clients' words put a lot of weight on it. We want to know whether they are interested in buying those products from us, and how much they are willing to pay for it.

What is a role of partner reputation?

... Quite important. Those European companies we work with are known leaders in their specialization with a long history. Their reputation affects our business also, so we do pay a lot of attention to it. In technical matters the reputation of the partner is indeed important.

Do intermediaries play important role in partnership establishment?

... No. So far we have managed on our own.

What are the company's expectations from western companies and their technology?

... Clear and precise terms of co-operation to all partners. We are trying to broaden the products supply, but it also depends on domestic demand, what our clients need. In our niche we cover 90% of the assortment needs in the sector, but we think we could broaden our products supply if there is an overall increase in industry in the whole Ukraine. For now we are trying to maintain the same sales volume, as we see no increase in whole industrial sector.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... Exhibitions and mostly international exhibitions are the way we look for partners. Search via Internet is good, but the personal communication and interaction during exhibitions/fairs is more efficient and productive.

What is your European partner's core capability that makes partnership attractive?

... Clear and precise terms of co-operation to all partners.

What kind of constraints did you experience in dealing with western partners?

... We did not experience many problems. There were some misunderstandings in working process, but nothing serious. No, there were not many.

What are the most important things western company should take into consideration when starting business partnership in Ukraine?

... I would suggest gathering more information about what is happening inside the market, having a look at current players, participating in exhibitions/fairs, and checking the publications. Gathering more details is important. As usually they do not have up to date information on the current market conditions and the conditions on the operating facilities.

Interview 7. Company: **Termolit-plus**

Interviewee: Romanenko Nikolay, Technical Director

What kind of partner relationships Termolit-plus had with western companies?

... We buy fireproof materials from company in Netherlands for our own production and for selling it to our Ukrainian customers. Our own products are only sold on the territory of Ukraine.

How did they start and when?

... We felt a need in the product for our manufacturing facility and there was also a demand for it on the market. So, as a result of long search, we found this company in Netherlands and so far we have been working with them for several years. We are quite happy with this co-operation; I hope they are happy as well

What is decision-making process like?

... Mostly higher management. Director and technical service evaluate the quality of materials and their capacity and also whether the price is reasonable. The decision to work with supplier is based on this price and quality ratio.

How do you rate/select your partners?

... No, there is no exact criterion. It is not like we have a table that we fill out based on the companies' characteristics. This happens in some facilities, but we do not do that. Yes we do search for a base to choose from, for example we find 3 companies and then look at their terms. Some of them might offer products to test – so we can try it, touch it, and see how it works. So it is very individual kind of process and there is no standard scheme for it.

What is a role of partner reputation?

... Reputation matters of course. Recommendations and referral in international and Ukrainian markets are very important.

How do you feel about prospect partner if you know that they have established relationship with your competitor?

... As we carry out the negotiation process, we do try to get the potential partner on our side, maybe offer them more favourable contact terms. But, excluding them from partner just because they work with competitors is just wrong.

Do intermediaries play important role in partnership establishment?

... Maybe on first stages, but later on we do not see the use of intermediaries viable, as it increases transaction cost. So we try to get away from it and work with partners directly.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... Exhibitions, Internet search, and negotiations with potential partners – all the standard means. Like everyone else does. If we have needs of certain material or equipment, we conduct a search via Internet. As it is done everywhere now. Once found through Internet, we send a request and maintain correspondence.

What kind of constraints did you experience in dealing with western partners?

... We did not experience any problems. In Europe, everything is a lot simpler than here, there you do not have to have a strict paperwork in order to work together. In Netherlands, for example, there is not need for contract, the contract is needed for our customs, bank, tax office.

What are the most important things western company should take into consideration when starting business partnership in Ukraine?

... Specifics of doing business on post-soviet territories. In Europe it is a bit different, the person who works on us and leads the whole co-operation with partners in the Netherlands is German of Polish decent. He has been working in Ukraine and Belarus and he knows the peculiarities of work process here. Even he does not understand how we manage to work the way we do. A lot of European and American companies want to work on Russian/Ukrainian markets, but they want to do it according to the schemes and principles that work in their countries. Unfortunately, Ukraine is not Europe, and you have to know and accept the fact that you have to bribe sometime, you understand, as you are familiar with how everything works in our countries. So the schemes and principles are quite different. Foreigners do not always understand what and why they have to pay for something, but this is how it has historically acceptable in our country.

Interview 8. Company: **Gidromehanika**

Interviewee: Kolganov Aleksandr, Director

What kind of partner relationships Gidromehanika had with western companies?

... We work with suppliers of spare parts from western countries.

Who was the initiator of this partnership?

... Usually the commercial structures, that strive to sell the products of western companies they represent. We analyze the list of products they suggest, check characteristics and pricing, and select something from the list.

How do you rate/select your partners?

... Exceptionally, according to the suggested terms/conditions, whether they are reasonable for us: technical characteristics of the product, delivery speed, and presence of warehouses nearby. Speed of delivery matters, so if it is not 2 month but sooner, of course it is favourable to us. The price also matters, whether we can afford it.

What is a role of partner reputation?

... We have had some experiences with bad quality products even from western companies. Which is why we look into the characteristics and features of the products. Technologies become more and more similar to each other, the difference can be distinguished by looking into specific characteristics. Not the abstract «quality» product, but more specific characteristics that we require for our facility.

How do you feel about prospect partner if you know that they have established relationship with your competitor?

... Very well. It is business that does not require monogamy. If the products are good, it is normal if competitors decide to work with them also. If I am paying for information product and the supplier starts issuing and giving out this information everywhere – it is a different story, but when it is physical product supply, there is no reason to mind it if it is also sold to competitors.

Do intermediaries play important role in partnership establishment?

... A really big one. Direct dealing with western companies is quite difficult, so we are mostly working with their dealers and representatives. Intermediaries do help us to get better solutions.

How do you get contacts/leads? How do you look for partners/solutions? What is the process of scouting?

... First, we review the problem and see what solutions are available on the market. Then, we set up a project to search for more economic solution or more convenient ways to deal with a problem. During the project, we search for compound parts of it. Commonly, we use Internet for our search, earlier we would rely on exhibitions as a search channel, but today this form of search is getting old. Internet allows finding all the needed information, reading and reviewing it properly. Exceptionally via Internet. First of all through Internet, we get the offers. For example, we have heard from Finnish firm Denozed, as a russian-speaking person lives there and works for them, same happened with one german company. But first contact is always done through Internet, electronic correspondence.

What is your European partner's core capability that makes partnership attractive?

... Obligation. This is what our local partner lack, as they are hard to rely on. And the 2nd is – diligence.

What kind of constraints did you experience in dealing with western partners?

... Well, when turning to the firms and asking them to provide more detailed information on specifications of the product, we would get mostly marketing kind of information. More detailed information is hidden and they are not willing to reveal it, even when it comes to more detailed measurement and so on. This causes some problems

What are the most important things western company should take into consideration when starting business partnership in Russia?

...I would suggest paying attention to co-operation and teamwork, rather than primarily profiting. Try to gather the team according to the problem (idea) that is ahead of them, regardless of its national background. Competition is increasing, however setting up a higher goal or core idea for the team is more important than fast profit. West has succeeded in classification and order in things. So they have to set their priorities right when entering markets – pay closer attention to the content, rather than the form. Creativity has to be present in operations.

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