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Universitetet  
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DET SAMFUNNSVITENSKAPELIGE FAKULTET,

HANDELSHØGSKOLEN VED UIS

MØAHOV, MASTERS THESIS

# **The unpleasant adventure of Telenor in Russia**

*“Don’t tease the bear... If you start going into its lair and poke with a stick, not much good can come from this.”*

*(Anton Sergeev).*

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## Summary

In this master thesis, we have investigated the *concepts of trust, cultural difference, and business relationship* between Norway and Russia. We analyzed their impact on the inter-organizational relationship in the example of Telenor (Norwegian) and VimpelCom (Russian) joint venture. We have seen that these three concepts go hand in hand with each other and play a significant role in the daily business. As a rule, a venture can have a long-lasting relationship having in view trust, culture, and business relationships as the key elements. However, some companies are meant to end up in business relationship divorce that we observed in our study.

To begin with, in *chapter one*, we have an introduction to the research field of our paper. The focus here is on defining the background, problem statement, and the purpose of our master thesis. Further, we have *chapter two*. This section shows the theoretical framework that we have referred to and later applied to analyze the case story. Additionally, *chapter three* gives the reader an insight to what type of methods we have chosen for the data collection and its analysis. Furthermore, in *chapter four* we present our case story implying theory along with the concepts mentioned above. The case is written in such a way to encourage the reader to find these hidden hints of the notion of trust, culture, and business relationship between the lines. After the case, we have *chapter five*, which is the discussion part. In this chapter, we discuss and inspect the case together with the theory. Also, we have decided to divide the discussion part into small sections, so it will be easier for the reader to know what concept we are discussing and analyzing. Later in *chapter six*, we think it is necessary to present the implication part, which justifies the significance of our research. Moving over to the end, we have *chapter seven*, which explains some limitations we have had in our master thesis. Moreover, we have *chapter eight*, the conclusion part. The core focus here is to answer our problem statement and show what we have contributed and discovered during the study. Finally, in *chapter nine* we suggest the issues that can be explored broader in the further research.

## Table of contents

Summary .....	II
Acknowledgement.....	V
<b>1. Introduction</b> .....	1
1.1 Background .....	1
1.2 Problem Statement .....	1
1.3 Purpose .....	2
<b>2. Theory</b> .....	3
2.1 Concept of Trust.....	3
2.1.1 Business Trust.....	4
2.1.2 Trust- Mistrust, Power, and Cooperation.....	4
2.1.3 Essential features of Trust.....	5
2.1.4 Trust-building process.....	8
2.2 Concept of Culture .....	10
2.2.1 Cultural distance .....	11
2.2.2 The role of cultural distance in inter-firm organizations. ....	11
2.2.3 Dimensions of Culture .....	12
2.3 The concept of the Business Relationship.....	16
2.3.1 Trust Relationship.....	16
2.3.2 Inter- organizational conflict.....	17
2.3.3 Business relationship divorce .....	17
<b>3. Methodology</b> .....	20
3.1 Research design.....	20
3.1.1 Research design strategies .....	21
3.1.2 Descriptive case studies .....	21
3.2 Choice of Method.....	21

3.2.1 Quantitative methods .....	22
3.2.2 Qualitative methods .....	22
3.3 Collection of Data .....	23
3.4 Data analysis .....	24
<b>4. Case story .....</b>	<b>26</b>
<b>5. Discussion .....</b>	<b>36</b>
5.1 Trust .....	36
5.2 Culture .....	40
5.3 Business Relationship .....	44
5.4. The concept of Co-dependency in Business .....	46
<b>6. Implications.....</b>	<b>48</b>
<b>7. Limitations .....</b>	<b>49</b>
<b>8. Conclusions .....</b>	<b>50</b>
<b>9. Further Research.....</b>	<b>51</b>
<b>List of References .....</b>	<b>52</b>

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The day has finally arrived to submit our last project of Master of Science in Business Administration. After five years of study at the University of Stavanger at the Faculty of Economics and Business Administration, we can put our hands on our hearts and say that we are incredibly proud of coming so far together. There have been some moments of doubts while writing the master thesis. It has been exciting, interesting sometimes even challenging and, as a result, massive learning process. We believe that the knowledge and experience gained from the study and our research will help us in the future professional career. The Master thesis' subject is selected due to an individual curiosity in strategy field in terms of the trust, culture, and business relationship.

In fact, the paper gave us the opportunity to immerse ourselves in a problem of how Norwegian mobile operator entered the Russian telecommunications market. Moreover, to understand how Telenor controlled and handled its international operations while being into a joint venture relationship with Russian OSJC VimpelCom. The project has also given us the chance to investigate more into the personal interest we have towards our specialization in Strategy and Management.

Indeed, this study has been a great learning experience for us where we tested our motivation. It would have been impossible without all the input and help that we have received from the colleagues, teachers and friends. Thus, we would like to thank our supervisor Terje Ingebrigt Våland, who has been very helpful and guiding us through the long process of writing. His guidance, support, and encouragement helped us to finish our project. Lastly, we would like to thank our families who always kept faith in us. Without them, it would be unmanageable to complete our thesis. Thank you very much from the bottom of our hearts for the motivation and support!

In the end, we wish you a good reading.

Stavanger, 15<sup>th</sup> of June

Banat Dulger & Inger Marie Fossan Hovtun.

# 1. Introduction

In this chapter, we give an insight into the background and problem statement that we have chosen to focus on in our project. Furthermore, we explain our purpose and contribution to the implementation of our master thesis.

## 1.1 Background

When we started our journey choosing topics for our master, we wanted to find an inspiring field of research that will do significant contribution to knowledge. Also, we were eager to write on a topic that would give us the opportunity to use our skills gained from our bachelor- and master programs. At the same time, we have been searching the field that has not been well studied before. We had an intense brainstorming session and found some keywords that were mutual for both of us. They were trust, culture, and business relationship concepts. Thus, we wanted to link these related keywords in the field of inter-organizational business in the telecommunication industry, which is highly relevant in today's global economy. As a result, our background made this cooperation appear as a natural choice. Taking into consideration that we are two students, who represent two different nations, Norwegian and Russian, we thought it would be beneficial to write about a business relationship that contrasted with national culture in the foreign market. In other words, two countries that have different organizational structures in business, culture and individual ways of handling it. Hence, we tried to highlight the problem both from the Norwegian and Russian perspectives.

## 1.2 Problem Statement

The telecommunications industry is one of the most modern, diverse and fast-growing sectors of the economy of Norway and Russia. Therefore, our research has high value in contributing and implementing knowledge for both countries. It is not a new phenomenon that Telenor is one of Norway's largest companies and has grown tremendously in recent years. Telenor has had its instability and has been in media for a long time. Much of the focus has been on the relationship between Telenor and its operations in corrupted countries. We have chosen to analyze the relationship between Telenor and VimpelCom. Since 1992 when the nightmare between these two mobile operators has started, they have been widely discussed in media.

This paper will focus on Telenor Group and its conflict with Russian mobile operator VimpelCom (OAO “Vympel-Kommunikatsii”), having primary focus on theory with respect to the related keywords: *trust, cultural distance, and business relationship*. After we had agreed on the topic of the thesis, we tried to achieve a problem statement that would capture the reader and would highlight the inter-organizational conflict between two countries. As a consequence, these reflections led us to formulate our problem statement that answers the following questions:

- *How can trust, cultural difference and business relationship impact the joint venture partners (Telenor and VimpelCom) while still working together and having a possibility to end up in business divorce?*
- *Why Telenor still cooperates with VimpelCom knowing the risk of being in the joint venture? Moreover, keeping the Chinese proverb in mind: “Fool me ones, shame one you. Fool me twice, shame on me” we will try to analyze the purposes why the Norwegian mobile operator does not leave the troubled Russian market.*

### 1.3 Purpose

The purpose of this master thesis is to study what kind of challenges Telenor encounter while entering the Russian market. By looking into the case, we aim to understand how the three concepts are affecting the strategies and implementation of a joint venture. We will investigate the trust and the cultural difference between Norway and Russia and their impact on the business relationships that Telenor established with VimpelCom. Bear in mind that Telenor have had so many scandal legal issues in Russia we decided to investigate by doing a case study. In addition, we wanted to contribute and implement the knowledge and experience taken from our previous studies that we have had in our home countries.



## 2. Theory

In this chapter of the study, we give the explanation of the theory that is most appropriate and relevant to answer our problem statement. It is a guideline that will help the reader to understand better the context and interpretation of the master thesis. There have been options to explore several themes such as transaction cost, synergies, joint venture and leader's roles in this theoretical part. Our decision stopped on the three valuable topics that found more and more attention in the research field recently. The subjects we have chosen to have a core focus on are: *the concept of trust, the concept of culture and the concept of the business relationship.*

### 2.1 Concept of Trust

*“In the West, one trusts the contract, in the East, one trusts the contact.”*

*(Anonymous).*

The importance of the trust is essential, and it is recognized everywhere and by almost everyone. We hear about it all the time. However, the knowledge of how it is built, maintained and disrupted is more limited. Trust is more seen as a social phenomenon that has a more common sense approach, and we all have a different attitude towards it. The definition of *trust* can be inconsistent from the author to author, but they have more or less the same standard point of view. For example, Misztal (1996) gives the following definition:

*“Trustworthiness, the capacity to commit oneself to fulfilling the legitimate expectations of others, is both the constitutive virtue of, and the key precondition for the existence of, any society.”* Moreover, Doney et al. (1998) present a definition of trust as *“willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party.”* Further, Zand (1997) suggests the following concept: *“Trust consists of a willingness to increase your vulnerability to another person whose behavior you can not control, in a situation in which your potential benefit is much less than your potential loss if the other person abuses your vulnerability”*.

According to the founder of IBM Corporation, Thomas J. Watson, trust is a powerful tool to have, but it is easy to destroy it and can be hard to build up again. *“The toughest thing about the power of trust is that it is very difficult to build and very easy to destroy. The essence of trust building is to emphasize the similarities between you and the customer.”* (Watson T.J. Quotes, 2015). Therefore, it is essential to understand how trust is developed in business relations.

### 2.1.1 Business Trust

Lately, scientists have shown particular interest in business trust applying it in different research areas, such as sociology, psychology, business management, and in the strategic marketing field. Further, Doney et al. (1998) argue that *trust is developed and connected to rules, values and norms that will affect the behavior of people in the community*. In our case, it is an essential notion, as we will look deeper into the cross-national relationship between Norwegian and Russian management, which are the part of society. Without rules, values and norms there will be no positive effect on trust while doing a business between companies. Going along with regulations, values and standards it brings good communication to a new level. Misztal (1996) pays attention to that trust can be seen as a public good, which is necessary for running a successful business. Trust is essential in assisting active problem-solving issue, because *“it encourages the exchange of relevant information and determines whether team members are willing to allow others to influence their decisions and actions”* (ibid).

### 2.1.2 Trust- Mistrust, Power, and Cooperation

Trust is not just a simple concept with one precise definition. Trust has several different subtitles, which interconnected with other subjects. For instance, some of the issues between Norwegian and Russian joint venture bind with trust are mistrust, power, and cooperation, which apply to our investigation. Eventually, trust improves relationships between different cultures and businesses around the world and gives room for communication and creativity. However, mistrust has been more or less secluded in the academic literature. On one hand, mistrust is easy to create, but difficult to get rid of it in a short period. On the other hand, trust is easy to tear down, but difficult to build up. *The conditions that create mistrust are broken promises, corruption, culture differences and power imbalance in the business* (Grimen,

2009). For instance, in Russia, the state exists regardless of citizen's election, and people in Russia are dependent on the government's decision. Due to this fact, individuals should not rely on the state. Nevertheless, in the long run perspective, too much mistrust between the people and federation can threaten state legitimacy (Grimen, 2009, p.52). In contrast, the citizens of Norway have more positive trust in their government according to Organization for Economic Co-operation and Development statistics (OECD Better Life Index, 2015). The nation believes that they play a significant role in influencing the affairs of the state, which is quite different from Russia. Earlier, the functions of the trust have been pointed out. Consequently, they come logically from the role of trust. Some of these issues are documented, but some of them left as only hypotheses, which are less trustworthy. According to Zand, (1997) *trust creates transparency for power and at the same time abuses authority*. The activity of confidence is always related to the degree of reliability of the trust receiver. *The impact of relying on someone is entirely different from person to person and from business to business. It depends on whether they are reliable or unreliable*. The trust would most likely reduce the transaction cost, in the long run, which is one of the several goals of a business. In other words, a handshake is cheaper than a written contract, but it is too risky to do a business with just a simple handshake agreement. In our case, Russia's unique, demanding business ethic issues (that sometimes difficult to understand to foreigners) serves as a barrier in assisting those who do not enter and learn how to act efficiently to gain higher returns. Therefore, contract considered as more written agreement, which has legally binding obligations in most Anglophone countries. However, in some countries, a mere handshake symbol may be the confidence in continuing business relationships, for instance, in China and Japan. With reference to it, Zand (1997) assumes that sometimes it is even enough to use handshake gesture in order to secure trust between companies relationships. When a partner trusts another one, the first one depends on the other party's "good" behavior. One trusts another part because one believes that there is a low probability that the other partner will intentionally abuse the other's vulnerability (Zand, 1997).

### 2.1.3 Essential features of Trust

According to Zand (1997), described in his book called "*The leadership triad. Knowledge, Trust, and Power*", that there are three essential elements of behavior when it comes to trust: *information, influence, and control*. Business leaders apply it in terms of how they accept the information, share delegation of authority and power. This division can be applicable to two

diverse countries like Norway and Russia. Further, the trust term has been divided into the following three essential features:

### Information

As a matter of fact, the valuable information can be used in a wrong way, or sometimes in the worst-case scenario misused. Business leaders demonstrate their trust awareness by disclosing sensitive information. Concerning it, Zand (1997) notifies that information disclosure increases the company vulnerability to the competitors in terms of business goals, intentions, alternatives, problems, and challenges of the enterprise. Moreover, the other candidate may use this detail to sabotage the leader and his future business plans. Consequently, when a leader mistrusts someone, he tends to hide the relevant particulars. In addition, a manager can withhold important facts, disguise ideas and suppress conclusions leaving the other partners behind. A good example of it can be our case that indicates these symptoms. As a result, it shows a wrong picture of the real situation and the actual underlying problems within the business (Zand, 1997).

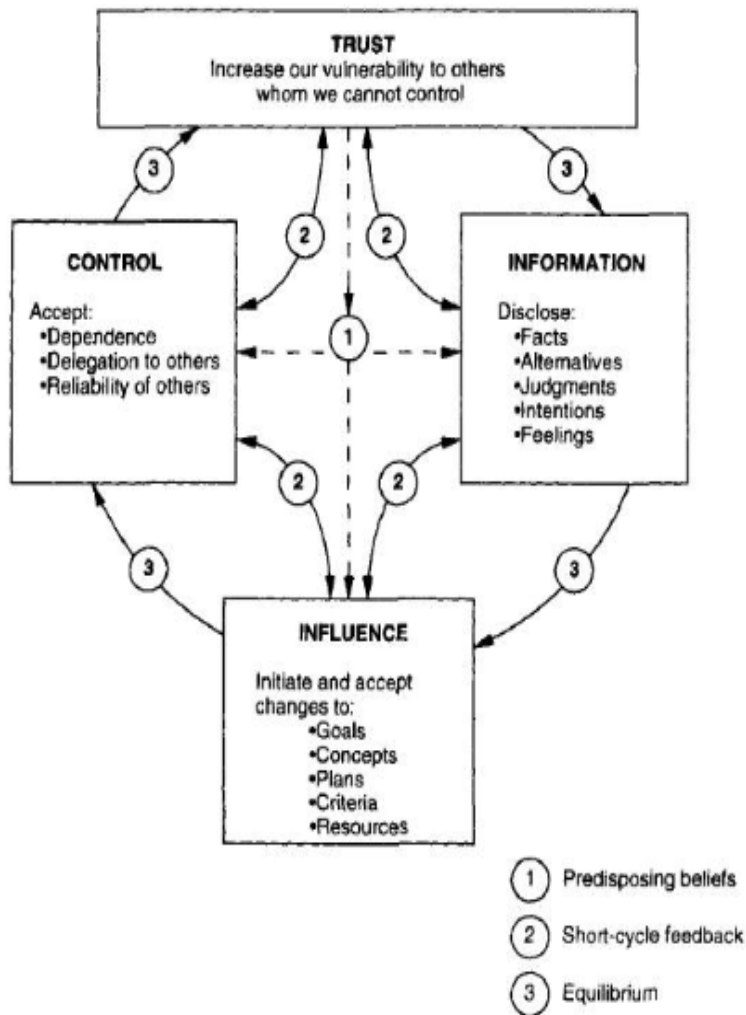
### Influence

In this aspect, Zand (1997) points out that the concept of influence refers to the certain sources of information and how it affects the executives' behavior. The managers show their trust when they allow other members in the business to affect their decisions. In our paper, we highlighted this aspect in terms of the inter-organizational relationship between Norwegian and Russian mobile operators. On the other side, *when leaders mistrust, they resist others effort to influence their decisions*. Usually, leaders disagree or prefer to avoid the evaluation of the result from the other employees of the company.

### Control

The meaning of the control associated with the regulation and limitation of another person's behavior or the course of the events. It has a complication, as it is one of the most difficult elements to predict since it depends on actions the others will do in the future. Leaders increase their vulnerability and decrease their control when they let others make decisions and take matters into their own hands. Accordingly, the information receiver can gather incorrect data, diagnose the problem in a wrong way or make an inadequate decision that would affect

the business. When employers mistrust someone, they tend to strengthen control and dictate the rules of the game (Zand, 1997).



**Figure 1:** A spiral model of trust (Zand, 1997, p. 94).

As shown in **Figure 1**, Zand (1997) explains three different phases (“closed circle”) that have an effect on trust. The trust will move in both directions up and down the spiral depending on how leaders disclose information, exercise and receive mutual influence and delegate the control.

*1) Predisposing Beliefs*

In this phase, individuals regulate how much information they reveal, how receptive they are towards others interests and goals, and how much control they try to exercise.

*2) Short-cycle Feedback*

In this part, the trust increases if another person gives comprehensive, suitable information and responds respectively to influence by adjusting goals, methods, and criteria.

*3) Equilibrium*

On the last stage, the short-cycle feedback becomes repetitive, and the level of trust reaches the equality point. When persons trust each other, the three phases flow in a beneficial spiral. The model describes the influence of confidence in leaders. It tests their accessibility into the knowledge and the skills. Further, based on gained facts, employees have to solve the problems.

#### 2.1.4 Trust-building process

To start with, Doney et al. (1998) introduce five cognitive trust-building processes, which draw a parallel with both economic and behavioral perspectives of the trust issue. The authors point out that trust develops on different values and norms, which affect the individuals. Further, the researchers outline the five processes and argue that the creating of trust process manages by the culture of society. In order to have a better understanding, it is essential to distinguish these following five processes: *calculative, prediction, intentionality, capability and transference*.

##### Calculative process

In this situation, the economics' researchers suggest that trust developing includes a calculative process. Doney et al., (1998) point out that trust establishes through a process whereby one party calculates the costs and/or rewards of another party's cheating or cooperating in a relationship. Moreover, reliability by means of a calculative process demands from trustors the ability to decide if the target expenses for opportunistic actions exceed the gain or not. The grantors assume that the objectives exhibit a faithful behavior because they are self-interest persons who calculate the gains of opportunism. However, the authors notify that this procedure caused by the evidence of opportunistic targets and seeks maximizing self-serving behavior. For example, in the long-term joint ventures, opportunistic behavior minimizes by shared profits, mutual decision-making, and control system that allow parties to pursue self-interest without a need to resort to guile. It is possible to follow this tendency on the example of our two companies Telenor and VimpelCom. Initially, Telenor had an opportunistic behavior while entering the Russian mobile market. In addition, both companies calculated loss and benefits from the inorganic growth strategy.

##### Prediction process

According to Doney et al., (1998) trust is based on prediction characterized by one party's ability to forecast another party's behavior. Using this type of process, the trustor confers obligation based on previous experiences, demonstrating that the targets are predictable. Nevertheless, the authors point out further that trust building through a prediction process requires information about an object's past actions. Logically, if the variety of shared experiences lasts for a long time, then the knowledge base becomes more predictable. In our case, it is hard to predict the future cooperation between Telenor and VimpelCom, without

having relevant data about shared experience and knowledge of each other. It is also essential to look through the prepared long-term scenario of both companies.

### Intentionality process

Pursuing this further, several researchers demonstrated the connection between intentions or motives, and trust. This connection shows that motives underlie an intentionality process where the trustor is influenced by the perception of the another party's intentions. (Doney et al., 1998). There are two types of intentions: good and bad. Moreover, the researchers point out that good intention can be considered if both partners develop mutual values and norms that eventually conduce to a better understanding of each other's targets and goals.

### Capability process

In this process, the trust building involves a trustor's willingness to be confident in the evaluation of the targets and ability to meet his/her responsibility along with the expectations. The authors argue the trustors must conclude that the objectives meet their expectation and needs while establishing trust through capability. Therefore, individuals contrast with incompetence to deliver on their promises (Doney et al., 1998).

### Transference Process

In this type of procedure, the trustor transfers the confidence from an existed object to unknown one. According to Doney et al. (1998) trust moves from the "source of proof" to another individual or a group with whom the trustor has no direct experience. Moreover, in order to establish trust from this type of process, it is essential for the trustors to identify sources of proof and to establish some links between the existed objects and the unknown ones. Consequently, existing strong interpersonal networks allows trust to transfer readily between individuals (Doney et al., 1998).

Overall, the framework of the trust-building process shows the importance of assurance in business partners while working together. Further, above mention processes we will apply for the Norwegian and Russian joint-venture analysis. It is likely that they have committed some of the cognitive processes that have been presented to determine their willingness to establish themselves.

## 2.2 Concept of Culture

*“A strategy that is at odds with a company’s culture is doomed. Culture trumps strategy every time – culture eats strategy for breakfast.”*

(Torben Rick).

In the previous chapter, we have argued that the business of an international company abroad will be affected by the native cultural aspects of the host countries. Therefore, *culture is crucial for cross-national Norwegian-Russian business relations as it shows an evident reason for conflicts or miscommunication*. Understanding of these two diverse cultures eliminates many obstacles on the way to success for both mobile operators. Consequently, cultural awareness is a fundamental element of an international company's strategy. We indicated earlier that trust component is an essential basis to obtain this ability between Telenor and VimpelCom. Confidence and culture have gained credible significance and attention in the international business arena.

In this chapter, we will continue the discussion turning to the notion of cultural distance, the approaches to studying inter-firm relations, differences, and the ways to describe it. The term culture has different definitions. In the context of exchange relations culture plays the almost as important role as trust (Doney et al., 1998). As the globalization process extends, many companies see the world as their opportunity for the new market. However, it is still challenging for any of them to assimilate culture comprehension of other organizations. Frequently, the type of administration determines by the culture, in particular, by the culture of a country and a company where a manager works (Trompenaars & Hampden-Turner, 1998). As reported by Lindell and Arvonen (1997), the rapid internationalization process leads to the requirement of a more precise understanding of the types of governance in different nations. *The international organization while exploring and conquering emerging markets should adapt to other country's culture. In its turn, it should include behavioral standards, language, lifestyle, values, and norms, customers' characteristics and preferences* (Sousa and Bradley, 2006). Adler and Graham (1989) state that a lack of behavioral clarity in consequence of cultural differences could become the reason for misunderstanding between two parties in the international business relation.



### 2.2.1 Cultural distance

One of the major differences between Russia and Norway is a cultural distance. According to Sousa and Bradley (2006), the cultural distance characterizes the extent of differences between the cultural values and norms in two or more nations. The topic of cultural distance has been an essential point in several explorations. As an example, Zhang, Cavusgil and Roath (2003) analyzed the way the culture of a country would influence the standards of international relationships between exporters and their distributors. Further, Ha, Karande, and Singhapakdi (2004) investigated the relationship between cultural distance and trust at the national level. However, both studies did not come to certain conclusions.

It is important to mention that there is an agreement between authors of organizational studies on the subject of culture. It is connected to certain patterns of norms and values, which are reflected in human behavior and used by members of a company or citizens of a country (Hofstede, 1980; Trice and Beyer, 1993). For that reason, in order to explore cultural differences in the international business relation between Telenor and VimpelCom it is essential to analyze both organizational and national levels since these firms involved and exist in the larger society.

### 2.2.2 The role of cultural distance in inter-firm organizations.

Cross-national business relationships may require consequential challenges for managers of Telenor and VimpelCom. When the partners to a relationship have cross-distant cultural boundaries, the cultural distance may easily cause conflicts, and the partners may find it difficult to handle joint problems (Vaaland, Haugland & Purchase, 2004). The conflicts that managed incorrectly often lead to a slackening of the relationships and even to a *counterproductive business divorce* (Vaaland et al., 2004). Numerous studies demonstrate how conflict managements styles reflects the culture and lead to breakdowns in international joint ventures (e.g., Kozan & Ergin 1999; Elsayed-Ekhouly et al. 1996; Ross, 1999; Ting-Toomey et al. 1991). A good example of it, Telenor's and VimpelCom's cultural conflict that ended up in the Russian Supreme Court.

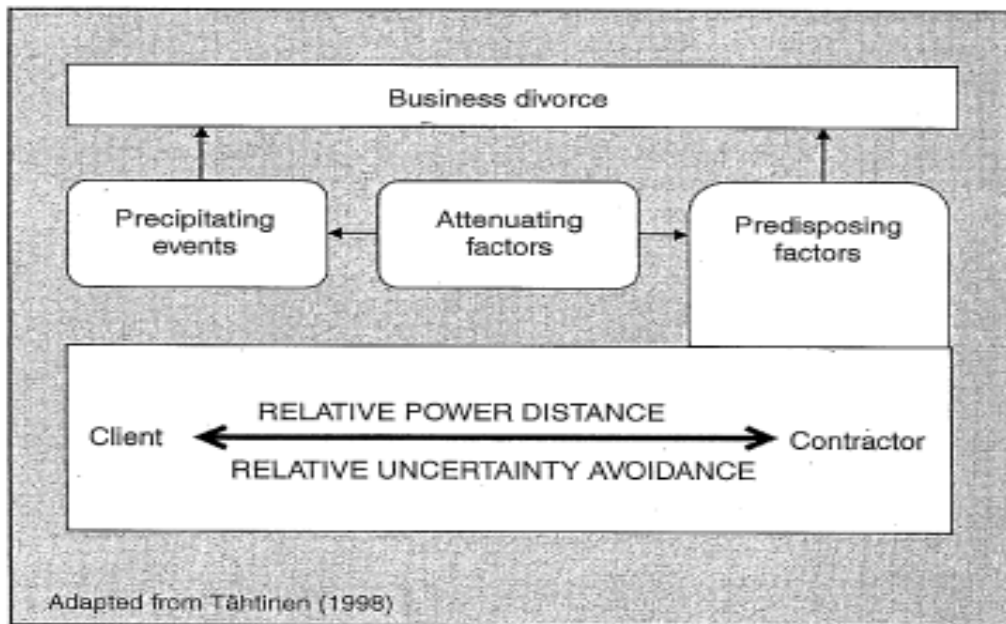
In the meantime, other researchers specify relatively unconvincing results on whether culture directly contributes to venture failure (Pothukuchi, Damanpour, Choi, Chen and Ho Park 2002). Culture can be considered at the both the national and organizational levels, with both

levels affecting performance (Pothukuchi et al., 2002). The research has suggested that with organizations' consisting of employees from diverse backgrounds, corporate culture does not necessarily directly reflect national cultural values, but a homogenous mix (Weisinger & Salipante, 2000). Another examination has indicated that the characteristics of business relationships may reflect the national cultural dimensions in which the connections embedded (Lowe, Purchase & Veludo, 2002). Therefore, researchers address the role of cultural distance between the parties as one *predisposing factor* that lead both sides to divorce. Practically, cross-national project management teams require a broad range of skills, perceptions, and political understanding to travel through uncharted territory where conflict is the "norm" (Vaaland et al., 2004, p.5).

One study of international joint ventures (Barkema & Vermeulen, 1997) suggests that cultural remoteness between business partners will diminish the chance of survival. The differences between the participants may lead to, for example, mistrust, stereotyping, communication problems and stress, but may also enjoy benefits such as more abundant and improved ideas and solutions (ibid). For that reason, the team members have to be inter-culturally competent, in order to exchange information efficiently across these differences. Further, according to Vaaland et al. (2004), it is important to highlight that the management of the companies also needs to consider diverse corporate and professional cultures.

### 2.2.3 Dimensions of Culture

Earlier, it was mentioned that previous researchers have examined predisposing factors such as the amount of relational investment and the nature of the relationship (Vaaland et al. 2004). In its turn, the focus of this paper is on the differences in the national cultural dimensions between the Norwegian and Russian joint venture parties which is relevant to our project. One study of international joint ventures (Barkema & Vermeulen, 1997) suggests that cultural remoteness between business partners will diminish the chances of survival. **Figure 2** illustrates how differences in cultural dimensions fit into relationship end model proposed by Vaaland et al. (2004).



**Figure 2:** Business divorce and predisposing factors (Vaaland et al., 2004, p.6).

A Dutch social psychologist, Hofstede (1980) indicates that culture describes ideas and values that people develop within their society and/or collective unit and distinguish them from people of other communities. Moreover, culture also extends to the organizational level and consists of a complex set of values, assumptions and beliefs that define the ways in which a firm conducts its business (ibid). Additionally, Steenkamp (2001) affirms cultural groups can be identified and studied at different levels beyond the national level, for example on micro- or subculture level. A micro-culture preserves significant patterns of the national culture but also develops its unique patterns of dispositions and behavior (ibid). In this study, it is essential to employ an inter-organizational outlook by highlighting the distance between the joint venture partners' corporate cultures, which also underlined in different national cultures.

With this in mind, Hofstede (1980) suggested four dimensions of culture: (i) *masculinity*; (ii) *individualism*; (iii) *uncertainty avoidance*, and (iv) *power distance*, to which he added a fifth (v) *long-term orientation* (Hofstede & Bond, 1991). In this investigation, it is critical use two aspects developed by Hofstede (1980) in the analysis part: *uncertainty avoidance* and *power distance* that is quite relevant for Norwegian and Russian mobile operators. There are a couple of reasons basing the analysis on Hofstede's dimensions. *First*, the dimensions have been well researched within Telenor and VimpelCom strategic partnership research. *Second*,

the original research covered all organizational levels, and validation has occurred in a number of the cellular telecommunications industry. The other three dimensions, even though considered relevant for the evaluation of Norwegian and Russian providers of telecommunication services, were not considered as significant for this case and were not included in further analysis.

*Uncertainty avoidance* is the extent to which future possibilities are defended against or accepted (Hofstede, 1980). Barkema and Vermeulen (1997) assert that it represents the degree to which society seeks to minimize uncertainty and ambiguity, or how they tolerate these factors. Uncertainty avoidance highlights the extent of risk an organization/society is willing to take and how the parties interpret and internalize information (Vaaland et al., 2004, p.7). High relative differences in inter-organizational uncertainty avoidance cause problems since they impact negatively on the survival of the relationship and may lead to the early dissolution (Barkema & Vermeulen, 1997).

Likewise, Vaaland et al. (2004) mention *low uncertainty avoidance* implies that people are uncomfortable with fixed rules and hierarchy, and feel more attracted to flexible, ad hoc structures that leave room for improvisation and negotiation. Conversely, *high uncertainty avoidance* implies a preference for stability, order, and predictability with less tolerance and flexibility in dealing with different-from-the-norm ideas (Vaaland et al., 2004, p.7). In its turn, Hofstede (1980) claims that this approach leads to systems of high formalization and hierarchy. It is therefore proposed by Vaaland et al.(2004) that the *relative uncertainty avoidance* between partners represents one important predisposing factor.

For this study, the *relative uncertainty avoidance* is engaged along two dimensions: *routinization of rules* and *codes of behavior* (Vaaland et al., 2004, p.8). It is essential to note, that there are more operational variables, but these two are most applicable for further investigation of the case. Rules, laws, and regulations are used to ensure predictability and stability within the organization, thus reducing overall uncertainty (ibid). Examples given by Vaaland et al. (2004) include procedure manuals, policy documents used in decision-making and detailed job descriptions for all employees. *Codes of behavior* describe the strict adherence of workers to act and behave in accordance with acceptable behavior within the organization (Rodrigues & Kaplan, 1998). The corporate culture ensures that each employee “acts” in an acceptable manner, with stability and predictability maintained within the organization (ibid).

*Power distance* is the degree of inequality of capability between people at different levels of society, and represents the extent to which the members of a society expect power to be distributed equally in organizations and institutions (Hofstede, 1980). One of the major differences between Norwegian and Russian cultures is *hierarchical power distribution*. *High power distance* implies rigidly structured groups, centralized power, and a tendency towards hierarchical, mechanistic structures. (Vaaland et al., 2004, p.7). On the contrary, organizations characterized by *low power distance* are likely more to be organic, flexible, and power being more decentralized (ibid). Hofstede (1980) highlights that it leads to the feasibility of control system based on trust in subordinates. It is therefore proposed by Vaaland et al. (2004) that the *relative power distance* between partners represents a significant predisposing factor.

*Relative power distance* engages in terms of *agent/principal distance* and *structural hierarchy*. It is important to mention that these are not the only two operational variables, but these two were most applicable for the case investigation. *Agent-principal distance* by Vaaland et al. (2004) relates to the perceptions of position between the parties and how other parties should act according to their role in the network. The agent-principal distance can be viewed as the inter-organizational equivalent of subordinate – superior distance within organizations suggested by Wallace et al. (1999). Agent-principal distance can be determined by how organizations perceive their position in the network, and consequently, how they behave towards other network actors. *The structure of hierarchy* relates to organizational structure, especially the rigidity of the structures and has previously been used to describe power distance (Vaaland et al., 2004, p.9). Companies with high power distance, for instance, VimpelCom(Russia) are likely to have fixed structures where power is centralized to the core of people within the organization. Delegation of responsibility is less common; much of the information is concentrated only on the top level. On the other side, low power distance groups, for example Telenor (Norway) are likely to have a fluid structure, where power is not located in a small number of basic positions, but rather can shift within the organization, depending on circumstances (ibid). There are no considerable status differences between people.

## 2.3 The concept of the Business Relationship

*“One of the reasons why so many solutions do not work or cannot be implemented is that the differences in thinking among partners have been ignored.”*

*(Hofstede & Hofstede, 2005).*

According to Ford et al., (2003) business relationship is not based on how two companies look at each other, or on whether they have positive or negative attitudes towards each other. A business relationship is more about how companies *behave* towards each other. The word “relationship” describes the pattern of interactions and the mutual conditioning of behaviors over time (Ford et al., 2003, p. 38).

The reader might ask the following question: *Is there a standard relationship between two companies?* Well, probably no, there is no such definition as a “standard relationship”. Each relationship is unique in its content, movement, in how it develops, in how it affects the parties involved and in what it requires for being successful (Ford et al., 2003, p.38).

*However, how can some companies stay together and be successful while others end in the business relationship divorce?* One example might be the relationship between Telenor and VimpelCom. They have had their good times being in the joint venture and maybe more known for their challenges lately. *However, how can two different countries still share a table with each other, when they probably should consider a divorce?*

### 2.3.1 Trust Relationship

Interdependence of trust is sometimes difficult to achieve in inter-organizational context. Nevertheless, it is one of the main ideas of every business relationship. The trust concept is taken for granted because it consists of conventional expectations that are not yet fulfilled. There are different factors that demand a competence and knowledge in this field. Trust is therefore very dependent on transparency and honesty between businesses (Fische, 1996). Thus, it is a quite risky action because confidence achieves without any form of guaranty and conditions. Firstly, trust concerns relying on something that have not yet happened. Secondly, one must believe in others’ volition, i.e. conditions that one can never have a direct knowledge of the contents. Trust relationship according to Sørhaug (1996) is always

paradoxical. The explanation of it that relations consist of mutual expectations that are not yet realized and thus have only its existence by virtue of those assumptions.

### 2.3.2 Inter-organizational conflict

The conflict between two parties frequently occurs in every company. Here comes the notion of constructive conflict. The challenges in this part are that the conflicts interpreted and used to create necessary changes, but not to develop into a “fight”. The term “fight” illustrates a situation where a struggle between the parties arises based on the maximization of endurance and steadfastness. The result of this type of “battle” can quickly develop into a long-lasting break-up in a form of *industrial divorce* (Vaaland et al., 2004, p.2).

Some conflicts are more crucial than others. However, every conflict has its starting point and an ending point. The end depends on the outcome of the conflict. Generally, it can take place in different ranges, such as a personal aspect, between employees or two companies. The concept was jointly supported by Vaaland et al. (2004) and Hakansson (2003), who suggested that: “*The core issue of conflict is the situation in which A fully understands what is expected of him, but rejects the line of conduct that B requires. Furthermore, A is prepared to pursue both his goals and the line of action by which he proposes to achieve them*”.

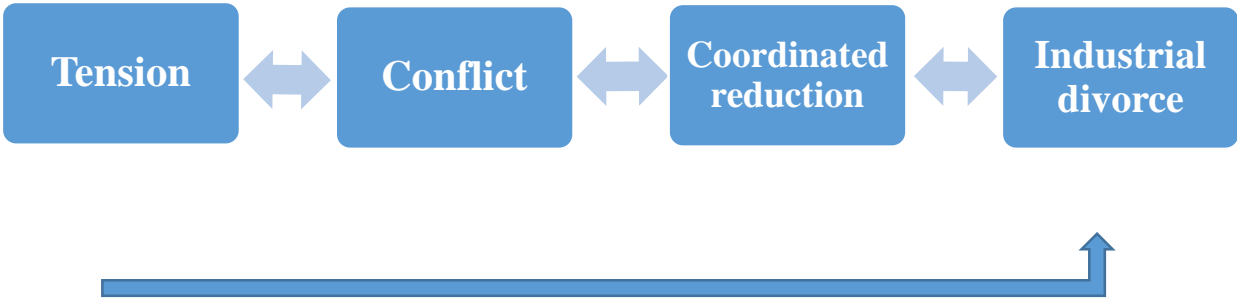
The conflict appears when one part creates difficulties, frustration and prevents the other part efforts to reach the goal. In other words, one can say that the objectives and the strategies between the two parties are not suitable. Moreover, the conflict has to do with different perceptions, values, aims and strategies between two businesses (Vaaland et al., 2004, p.26).

### 2.3.3 Business relationship divorce

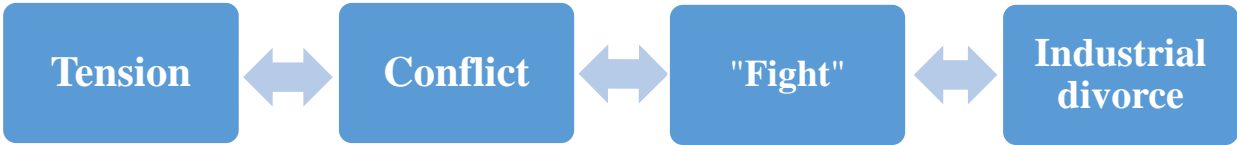
A study of the business relationship divorce is respectively new research area, but it is necessary to discover and to understand how to avoid this dissolution. Some relationship can be saved, and others are meant to end up in divorce.

According to Vaaland et al. (2004, p.2) there are two types of divorces: *constructive* and *destructive*. Not all divorces are the result of conflicts or fights. Such, *constructive divorces* provide a “nice output” (see, the **Figure 3**) and mean that the two parties separated as friends after a coordinated reduction of relationship. It all starts with some “tension” between the two sides. This “tension” can have several causes, such as differences in the parties’

characteristics and patterns of behavior (Vaaland et al., 2004, p.1). The background for constructive divorce can be that the two sides agree on that they do not get enough out of the relationship and is better off. This type of divorce is an unproblematic divorce that both parties can handle, and there is no loser in this cooperation. On the other hand, *destructive divorce* is when none of the parties agrees with each other and has different goals. Further, meanings and plans are most likely to end up in a bad “break-up” or in “unattractive output” as illustrated in *Figure 4*.



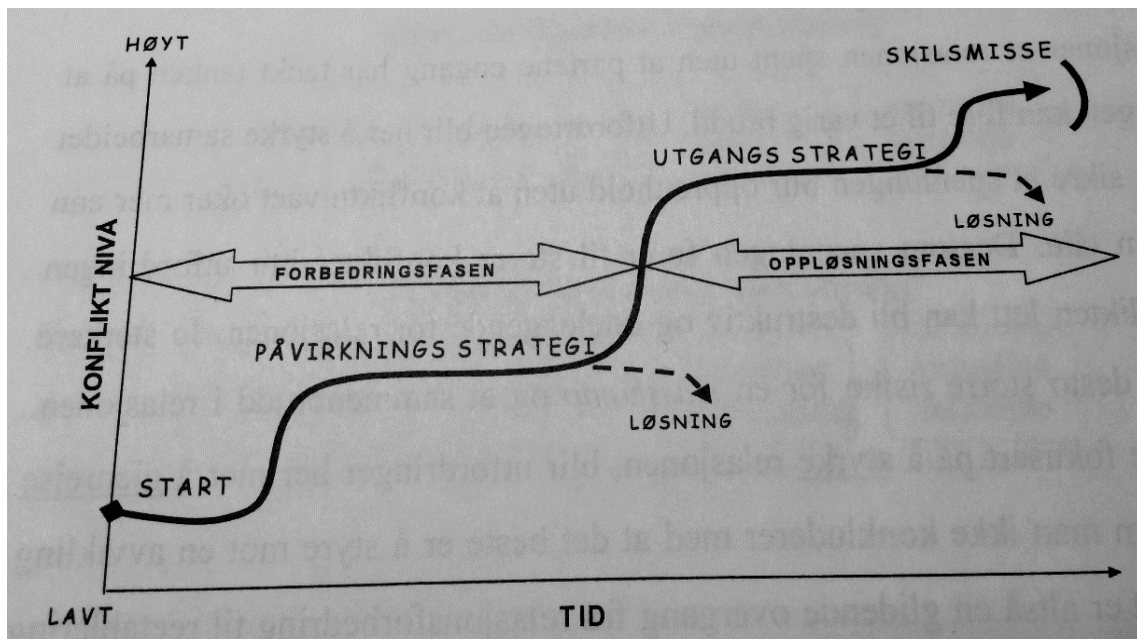
**Figure 3:** Constructive divorce/ «nice output». (Vaaland, 2004, p.2).



**Figure 4:** Destructive divorce/ «unattractive output». (Vaaland, 2004, p.2).

In other situations where the parties have corporation problem in the same area, one can still achieve a “nice output” with a limited loss. This type of divorce is more advanced and demanding than the others. Ordinarily, the divorce can be fast and agile, in case if both of the parties agree to terminate the relationship. The road from the start of a business relation with disruption can be extended.





**Figure 5:** Different phases toward breakups (Vaaland et al., 2004, p.4).

The tension solving way is a process where the companies face the choices about how the relationship should be handled. These options identified as the result of the level of conflict, but also something that affects this level. The **Figure 5** illustrates that in the beginning, while the degree of conflict is low, the partners try to influence each other through interacting to change, also called “impact strategy” (in the figure it is indicated in Norwegian language as the “PÅVIRKNINGS STRATEGI” in the graphic). As the level of conflict increases and time passes, the partners give up improving the relation, and it leads to a resolution phase. This is more known as an “exit strategy” (refers to the Norwegian definition as “UTGANGS STRATEGI” in the picture). Each one of earlier mentioned phases, however, have a solution, but it depends on the situation the partners are located in (Vaaland et al., 2004, p.4).

The divorce of a relationship is often a consequence of the conflict, even though it is essentially not a condition for ending. There are two types of actor’s strategies in the process of relationship termination: *voice* and *exit*. Vaaland (2006) points out that a *voice strategy* implies confronting the reason for potential dissolution together with the other party, and perhaps restoring and maintaining the relationship. *Exit strategy*, on the other hand, implies that the company wants to terminate an existing relationship.

In some situations, the relation can be in “tension” without the parties have even imagined that this type of tension can lead to a lasting divorce or breakup. The challenge is thus to strengthen the cooperation between the parties relationship and ensure that this tension is maintained without that the level of conflict increases more than the alliance between the parties can tolerate and handle. If the tension leads to bigger conflicts, then it can destroy the relation (Vaaland et al., 2004, p.3).

As we have seen through this theoretical part, *the concept of trust*, *the concept of culture* and *the concept of the business relationship* are in close inter-organizational cooperation. The three chosen themes in this reviewed theoretical part go hand in glove with each other.

### **3. Methodology**

In this chapter of the paper, it is necessary to start with the introduction of the research design in which a case study methodology is justified. First, we indicate what type of data has been collected. Second, we emphasize on the validity and reliability of information sources used in this section. Furthermore, we present a general statement about the research methods. Above all, the method has been used in order to gather information, which should contribute to resolving the problem statement of our research.

#### **3.1 Research design**

On the condition, that this is an exploratory research, we find it appropriate to use case study design. This approach implied when existing example considered being incompetent due to the discrepancy between observations and expectations. Application of the case study research design gives us the opportunity to go more into the depth of the investigation area. Moreover, obtaining valuable information helps us in assessing the credibility of the task. Furthermore, we are aware of the fact that it is necessary to be careful about making quick conclusions relying only on the information collected from the second sources. The aim of this work is, therefore, to find techniques and tendencies in the data collection that can provide answers to the problem statement.

### 3.1.1 Research design strategies

Saunders et al. (2012) mention different research strategies, such as experiment, survey and case study. In addition, Yin (2009) argues that a case study meets the requirement of answering questions like "what", "how" and "why." It is applicable when the researcher has little control over events, and the focus is mostly on a daily current phenomenon in a real context. Moreover, the author explains that case studies can be advantageously accomplished by combining different approaches to collect huge amount of detailed data. A case, according to Saunders et al. (2012) deals with one or a few individuals, but it may also specified by a group of people, for instance, a family or an international company. Furthermore, authors emphasize that a case can also be a historical event, or some action occurred in a particular period of time and place.

### 3.1.2 Descriptive case studies

The most typical classification of research patterns is a *descriptive design* that is related to our case story. According to Johannessen et al. (2010) it defined as follows “*a case study is an empirical study focusing on a relevant phenomenon of its real context because the boundaries between phenomenon and context are unclear*”. Further, the authors explain an analysis of the strategy called *descriptive case study*, where the researcher develops a descriptive framework for case investigation. The process of data collection helps to develop the historical timeline of the events. The investigators give a notion of that it contributes to bringing out the complexity and diversity of the study.

## 3.2 Choice of Method

The choice of research methodology is a challenging part of the investigating process. In our study, the option is driven by the research questions and the actual problem that need to be answered in this master thesis. In this part of the report, it is appropriate to address two methods, more known as *quantitative* and *qualitative* approaches. Before introduction, it is necessary to have a clear and defined understanding of method definition. The word “method” originates from the Greek “*methodos*” which means to follow a particular path towards a goal (Johannessen et al., 2002). In other words, the term method applies to an action that collects information about the object of investigation. According to Johannessen et al. (2002) the

method should illuminate the research problem, both in terms of obtaining the relevant information and in carrying out the study. First of all, let us have a look at the methods.

### 3.2.1 Quantitative methods

The quantitative methods apply when investigator carries out the research based on the concept that causal relations and “laws of nature” have objective reality. In other words, this fact explained by the relation between *cause* and *effects*. It follows with quantifiable data collection, which presented in numbers. A good example of the quantitative approach can be a survey. The reason why the survey best suits to a quantitative method is that it mainly focuses on counting up phenomena, which can be analysed through statistical software programmes comparing two groups with each other (Johannessen et al., 2002, p.30). In addition, it demands forming of hypothesis, which the researcher wants to test often by conducting experiments. For this reason, the quantitative method is not applicable for our study.

### 3.2.2 Qualitative methods

Qualitative methods, however, aims to provide a deeper understanding of phenomena without quantifying them. Considering that our thesis based on a case study including data collection from the secondary sources, we decided to apply the *qualitative method* in an *explorative research design*. This form of the process deals with a limited number of informants (Johannessen et al., 2002). The meaning of qualitative approach is to obtain detailed descriptions of key features and individuals, which helps to distinct the information. The investigator does not have a precise explanation of the answer to the research question. Thus, it is complex to form the hypothesis. In our situation, we have to explore our research phenomenon in detail in order to create a clear picture of it by getting closer to the subject. Hence, the quantitative method, which has relation to cause and effect, is not relevant here. Moreover, we do not have access to valuable knowledge about the happening to form the hypothesis on cause and effects. Taking into consideration that our study of Telenor and VimpelCom relationship is new, the qualitative research is, therefore, more likely to be relevant. In such cases, there is a requirement to investigate the subject of research further and try to establish a fundamental of knowledge and a basis for further understanding. We would rather know more about why and how the differences between Norwegian and Russian mobile operators played a crucial role in their joint venture agreement. By digging deeper down, we

may understand the challenges and find possible solutions to them. Finally, we chose this approach as it complies the reliability and validity criteria of the study.

### 3.3 Collection of Data

This section of a master thesis is a data sources review divided into two categories: *primary* and *secondary*. We made up our minds to collect data from a combination of sources indicating its relevance for this paper. According to Saunders et al. (2012), an investigator collects *primary data* to perform his unique research. The advantage here is that the researcher or group of individuals gathers facts from original sources, providing deeper understanding of the estimated phenomenon. The disadvantage is that it is time-consuming and costly. In contrast, the *secondary data* is collected by other individuals than the researcher. In our case, secondary data may be Telenor and VimpelCom companies' strategy papers, information on web pages, annual reports, emails, and interviews with top management. The advantage of this type of data is that it is time-and cost-saving and has higher quality than the data gathered by the individual itself. Usually, it provides better understanding of the research problem and context around it (Saunders et al., 2012). The disadvantage is that it does not necessarily come up with the answers we are looking for during the exploration. Moreover, one should be skeptical regarding the trustworthiness of the sources. Thus, it is important to have a critical view not to take everything for granted and examine how well the information fits the study.

It is essential to note while we were investigating the case with one particular question the other key factors emerged during the data collection. In fact, there are different ways to collect literature for the descriptive study. Saunders et al. (2012) give an example of using literature and published sources. For this study, we used both the Norwegian and Russian primary and secondary sources of information. *Initially, we employed the University of Stavanger library's catalog, companies' official web pages, the National Library on-line database, academic journal articles, newspapers, books, market research reports and archived federal court records.* In order to concentrate on the main scope of the case study, the secondary sources dominate in our paper. However, we have emphasized the presence of the primary sources in our investigation that will be mentioned further. In addition, we suggest that using multiple sources will increase the *validity* and *reliability* of the data. According to Johannessen (2011), *validity* means how precise the facts we have collected corresponds with reality. The sustainable validity requires that our inquiries regarding Telenor

and VimpelCom conflict are suitable to our problem statement. To maintain the validity we made sure that our problem statement is linked to theoretical terms by using the same selection of terminology as found in the research literature. Further, Johannessen et al. (2011) defines *reliability* by how stable and regular the results of the researchers' tool of measurement produces. However, this phenomenon is often hard to measure in qualitative research. It would be more trustworthy if another investigator could use the same tools for data collection and get similar results if he did the same research on Telenor and VimpelCom business relationship conflict. Also, we have had access to court decisions documents issued in Russia that related to the primary findings and can strengthen the reliability of our data. Moreover, we have read the available official chronicles published on corporate web pages of Telenor and VimpelCom in order to control our findings. In its turn, we have used companies' strategies and international reports setting them for analysis without getting into an in-depth analysis of both mobile operators.

### 3.4 Data analysis

In our study, we want to expose to view how Telenor and VimpelCom joint venture affected by the trust, cultural differences and in terms of business relationship. The level of analysis would be mostly on a *company level*. However, taking into consideration that the individual level may also be attractive in cross-cultural relationships we applied *interaction level* in our study as well. Therefore, we prepared a learning case, which will be analyzed in discussion review. The data analysis should be collected carefully and later processed in response to the given problem statement. Thus, we used *structured* coding approach, as we think it is more relevant to our thesis. We started to form a baseline for our problem statement from the theoretical framework. Further, we searched the information in order to organize it, according to chosen theoretical terms and concepts. It is essential to mention that in a qualitative study, the analysis and collection of data is a continual process. After the studying of research literature, we wrote a preliminary version of our case story. Later, we made adjustments and corrections according to the information taken from official web pages of the companies. While we were searching the relevant material, we came across to unexpected changes that influenced our further way of investigation.

Incidentally, data collection and analysis of the theory part might be challenging and cause some problems with keeping the right focus on a subject. Luckily, as we got deeper into the

material and theory, we experienced that we became more concentrated as we move forward with the case. It helped us to identify the important and essential theory concepts. This term introduces the question of *theory sensitivity* (Strauss & Corbin 1990), which is necessary for a research process. Therefore, not all events in the case study are analyzed, but only those that considered relevant to answer the problem statement given in the introduction section. Overall, in the following discussion part, we will try to combine our findings using the theoretical framework. Further, we introduce the conclusion, which matches our results with the theory. The important aspect is to develop a broader base of knowledge about how important are the concept of trust, culture distance and business relationship with the example of Telenor and VimpelCom joint venture. These three major topics should be investigated more upon since it has common aspects in inter-organizational companies working together. Therefore, it is not so important to know that our study went as planned, but rather how our findings can help to resolve the inter-organizational conflict between Norwegian and Russian companies. Moreover, if we are lucky, our results can be implemented in diverse cultures, which in turn could prepare the grounds for more thorough investigation of the question in the future.

## 4. Case story

In this chapter, we present a retrospective timeline of the relationship between Telenor and VimpelCom. Due to the limited scope of the master thesis, we are not able to provide the detailed history of the companies. Therefore, we rather focus on the context of the companies in general and highlight main events that are relevant to the case analysis. All the data hereby presented is based on the official facts provided by businesses' official web pages or other related sources of information about the telecommunication industry.

### *Diving into the unknown.*

From the very beginning of the saga, it is important to have knowledge of the country that is new for the joint venture partner. It is essential to know the people, the way they live, think, behave, socialize, to discover their traditions, art, and culture. The buying and selling relationship between Russia and Scandinavia has a long history together, which goes all the way back to the Viking era. Earlier, the scientists demonstrated the significance of the Scandinavian element in the earliest origins of Russian culture, identity, political institutions and language (Thomsen, 2010). Even though, most of the differences in today's Russian society are dating back to more than eighty years ago. Some historical ties do exist nowadays due to the Soviet system that was governing society for seventy years. To understand the major cultural differences between Norway and Russia with respect to business relationships, we need to look deeper at the whole picture.

It all started in 1853 when Norway's first telegraph cable connection was opened along the railway tracks between Strømmen and Christiania (now Oslo) (Norwegian History, 2015). 162 years of gathered experience within telecommunications is what have made Telenor to where it is today, playing an important and influential role in the global economy of the mobile industry. However, the provider of telegraph services did not quite understand what the future would bring while expanding into the former Soviet Union.

### *1992 - The adventure of Norwegian and Russian saga begins.*

Nowadays, it is well-known fact that Western cellular service companies are looking for high-growth markets to compensate slowing operations in their home markets. Luckily, emerging nations offer them the Promised Land. However, as one of this strategy's pioneers is finding,



deal making in foreign places can quickly go wrong. In order to survive in this harsh business world, companies should prepare for useful strategies and seek for the unique competitive advantage in the new developing markets.

The saga began in the year 1992 when Telenor made its first investment in the Russian telecom sector. It acquired 50 percent of corporate communications network operator KolaTelecom, in Murmansk (Telenor Group in Russia, 2015). A couple of years later Telenor acquired 12.74 percent of NorthWest GSM (Russia's third-largest mobile operator MegaFon) and in 1997 it bought 49 percent of StavTeleSot and Extel GSM respectively (ibid). It shows the clear picture of Telenor's intentions to merge its assets in the Russian business sector. The value of entering this market was not hundred percent clear, but it was more expensive for Telenor to enter other new markets. As Fridtjof Rusten, the senior vice president at Telenor and a director of Russia's VimpelCom once said: *"If you invested five years ago into emerging markets, about 95% of those investments were successful."* Further, Rusten explained that: *"If you look ahead five years, you may see half are profitable, but not more than half."* (Eisinger, 2006).

### ***1998 - The first investment in VimpelCom and acquisition of the Ukrainian operator - Kyivstar GSM.***

A 63-year-old Russian engineer, Dmitry Zimin, who spoke no English founded VimpelCom in 1992 (Kiselyova, 2011). He had a background in military defense systems development. Inspired to do what everyone said could not be done; Dr.Zimin wanted to build an independent company in order to pioneer the mobile industry bringing basic wireless communication to Russia (VimpelCom History, 2015).

In December of 1998, Telenor became a strategic investor by signing an agreement to acquire a 25 percent stake in VimpelCom, which at the time was close to bankrupt and had 130,000 customers. The company marketed their services under the brand "Beeline" (Historical Background, 2015). We will go ahead and tell you that Beeline became the largest operator in Moscow, and its trademark was well-known in 20 Russian regions (VimpelCom History, 2015). After active negotiations, Telenor made a commitment by signing a contract on acquiring 35 percent ownership stake in Kyivstar GSM one of the substantial mobile operators in Ukraine. This event took place in Oslo, involving investments on Telenor's part

for 40 million USD. Acting this way, they shared information, responsibility and aimed at the successful completion of the process, developing assurance.

***2000 – 2003 - Messy buying and selling relationship between Telenor (Norwegian Viking) and VimpelCom (Russian bear).***

At the beginning of 21st century, the Norwegian telephone company Telenor, teamed up with local partner Alfa Group in order to expand its operations in Russia. Alfa Group Consortium is one of Russia's largest privately owned investment groups, with interests in oil and gas, telecommunications, commercial and investment banking (Alfa Group, 2015).

The new period determined by the new chapter of the Russian and Norwegian adventure saga put to the test. Alfa was in charge of Telenor's expansion from Moscow into its backcountry area. Using its competitive advantage, Alfa Group helped Telenor to close deals with local players and build a huge empire valued at billions of dollars.

The Norwegian state-owned conglomerate has been involved in business relations in Russia through his joint venture partner VimpelCom since 1998. However, Telenor's official website does not contain a particular section of their existence in Russia on their global presence map (Global Presence, 2015). Moreover, The Telenor Logo is presented in all of the company's operations in emerging markets except VimpelCom. These coincidences would cause some essential chain reaction in the future relationship between two parties.

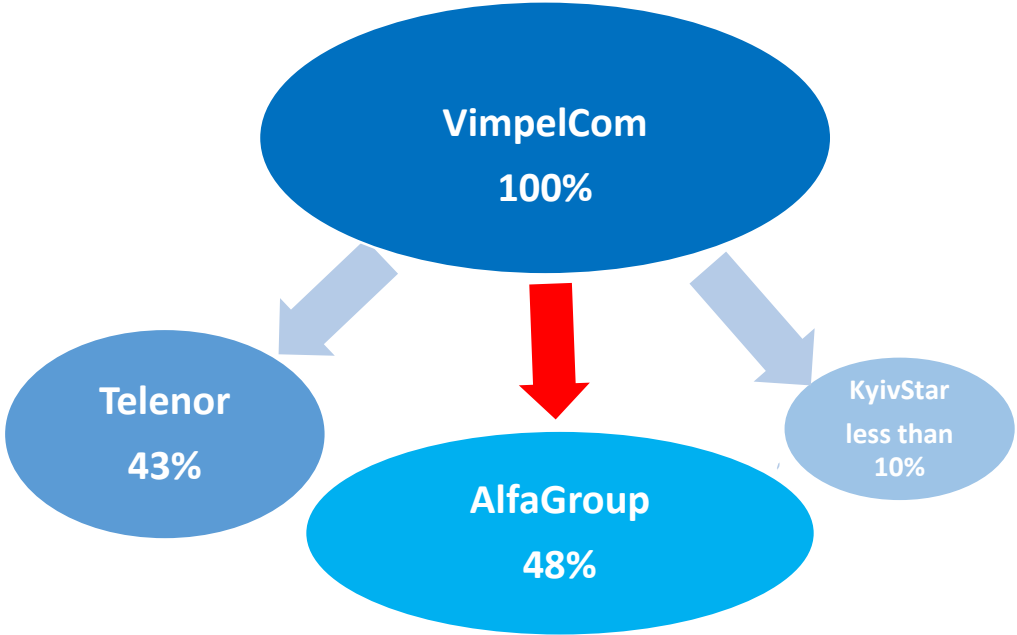
In 2002, Telenor and Alfa signed an agreement in Oslo extending investments in VimpelCom from 40 million USD as it was before, and now it exceeded 400 million USD in favor of the Norwegian company. Signing ceremony included "the big bosses": President of the Russian Federation Vladimir Putin and the former Prime Minister of Norway Kjell Magne Bondevik standing in the back. The expressions in their eyes were particularly striking. There was the light of a judgment on them, and at the same time presented an inquisitorial mistrust, even suspicion.

***2004 - "A relationship without trust is like having a phone with no service. Moreover, what do you do with a phone with no service? You play games" (Anonymous).***

It is a well-known fact that there is no happy ending in sagas between the Viking and the Russian bear. The relationship had soured when VimpelCom management proposed to

acquire a small and loss-making mobile operator – “Ukrainian Radio Systems” (URS). According to its official website, Telenor made the decision that the price asked for the company was exaggerated and would require substantial investments to make the company survive. As a legal procedure requires, the acquisition proposal has to meet a supermajority vote. Therefore Telenor`s “no” to this proposition stopped the plans. Despite accepting the decision the power-broking between Alfa, the owner of VimpelCom and Telenor began. Later, it would end in the acquisition being forced through by circumventing both Board and Charter (Bryan-Low & White, 2006). As shown in the *Figure I* the voting rights of the ownership are not divided into equal parts and, therefore, caused the conflict among the members of VimpelCom.

In order to be successful in handling business and marketing challenges, companies have to establish long-term business relationships, which would most likely in the long run reduce their transactional costs. These costs are necessary for entering into new agreements with two different countries, which backgrounds contrasting each other.



**Figure I:** Relationships between Telenor and Russian operators. Ownership of voting rights (Advanced Communications and Media, 2015).

*2005 – The Viking starting process of taming the Russian bear.*

Conflicts or miscommunications become a possible reason for potential hazards in the cross – national trade relation. When the two sides have settled their differences, the disagreements with partners have started. Further, it occurred that situation with Alfa Group was an extreme one.

It is important to mention that Telenor’s high-growth assets have been a main attractive reason for the investors. The company’s shares have risen like a rocket in the past decade. All these factors made two Titans with different perception come together and attempt to unite to reach the common goal – creating the powerful Russian and Norwegian merger.

Initially, Alfa Group’s experience and knowledge of the local market helped Telenor to enter into new markets apart from Moscow. Alfa Group run like a private-equity fund, which was controlled by Russian billionaire Mikhail Fridman (Bryan-Low & White, 2006). The Russian oligarch was quite satisfied with the fact that Telenor was in charge of the management control. Meanwhile, Alfa was working hard on expanding its business pouring money into holdings valued at billions of dollars. The Russian side started to explore different options and was self-confident to create its “priceless” portfolio for an upcoming deal. However, the both next-door neighbors were sitting on the same ticking bomb forgetting the effect of the explosion.

The conflict detonated when Telenor blamed Alfa of “an illegal corporate aggression.” Norwegian side stabbed in the back pointed out that there was a threat for the contracts driven by mutual consent. In addition, Telenor accused Alfa of lack of competence on how to run Russian and Ukrainian companies in which two groups were shareholders. The disagreement had started when Alfa Group showed interest in merging these joint VimpelCom (Russian) and Kyivstar (Ukrainian) operations.

*“VimpelCom withdrew its \$5 billion offer for Kyivstar, and VimpelCom’s chief executive says he will quit if the two shareholders do not work out their differences.”*

(Bryan-Low & White, 2006).

In real life, the business world does not work when one tries to grab the biggest piece of the golden medal as national pride. They say,

*“Don’t tease the bear, if you start going into its lair and poke it with a stick, not much good can come from this.”*

(Koulikova, 2014).

Alfa Group reacted by accusing Telenor *“for unfairly putting its interests at the companies ahead of those of other shareholders and for “sabotaging” merger talks.”*

(Bryan-Low & White, 2006).

### ***2006 - 2008 - Legal and hierarchical caprice is still blowing up foreign investment.***

For Telenor 2006 was a year of legal battles against the Alfa Group and VimpelCom. The judicial investigations took place in Moscow when the Norwegian mobile operator commenced several lawsuits against VimpelCom. The case brought to court described how shareholder Alfa Group along with VimpelCom management, bypassed VimpelCom’s Board, circumvented minority shareholder protections in VimpelCom’s charter, and violated Russian law in connection with the acquisition of Closed Joint Stock Company “Ukrainian Radio Systems” (URS)” (Telenor Commences Lawsuits in Russia, 2015).

The breach stated that the VimpelCom executives gathered a “secret” extraordinary meeting providing untrue and misleading information by leaving the other shareholders of the VimpelCom behind. Further, it was mentioned that the purchase of the URS broke the Russian law and as company’s charter demanded the «green card» from VimpelCom Board has not been showed. VimpelCom Board was left on the players’ bench while the others were playing on the field.

*“Until recently, Telenor had a good relationship with VimpelCom’s management and Alfa Group. However, we cannot accept that VimpelCom and Alfa Group are now operating with a complete lack of respect for law, transparency, corporate governance and financial controls. We encourage the Alfa Group and VimpelCom management to recommit themselves to operating within the ethical norms and corporate governance standards appropriate for an NYSE-listed company and to cooperate in building the value of VimpelCom.”*

*Jan Edvard Thygesen, Executive Vice President and Head of Telenor in Eastern/Central Europe (Telenor Commences lawsuits in Russia, 2006).*

Further, in the same year a 3-judge panel of the 9th Supreme Arbitrazh Court in Moscow ruled initially in favor of Telenor. Suddenly, the legal resolution issued in Russia (Court order, 2006) showed that the court decision took different path than expected. The Supreme Court of Justice supported a lower court decision against the Norwegian mobile operator. The resolution was based on “*the principle of legal certainty and ... to [ensure] the stability of the business*” (Telenor, 2015a). Consequently, Telenor had to withdraw the remaining cases. Surprisingly, the head of the country confessed in unpredictable character of administrative procedures:

*“Mr. Putin himself has admitted that Russia's courts are unpredictable and are in urgent of reform. It does not help that Russian state-owned firms have in the past benefited from judgments akin to those that Telenor is complaining about.”*

*(Courting disaster, 2009).*

Russian Bear and his older brother - Ukraine had wounded the Viking many times. The Scandinavian warrior tried to survive in this legal, power-breaking battle, despite that he was stacked in the middle of the former Soviet Union alliance. Having no clue where the attack will come first, the Viking made an effort to balance between two hierarchical “gamblers.” The peak of the legal battles and disagreement happened when Ukraine has started a black PR campaign against Telenor. The target was to destroy Telenor’s reliable image and to harm any Norwegians living in the capital city – Kyiv by that time.



The banners with the text: *"Norwegians! Respect Ukrainian laws!!!"* began to appear on the streets of Kyiv (Telenor, 2015b). After some period, it was evident that the whole campaign was unsuccessful.

Undoubtedly, while the Viking relied on long-term relations, the Russian and Ukrainian sides were less disposed of it. Foreseeing unstable economic situation, the Russian Bear had chosen the short planning horizon having spontaneous approach to business enterprise. Consequently, most of the foreign projects are often short-term in Russia with an assumption for a quick financial reward. Moreover, this feature has deep roots in the history of Russian culture. Contextual, VimpelCom, AlfaGroup and URS see Telenor as an inferior, but not as the equal party in the joint venture agreement. The Russian Bear was ready to fire an arrow towards the Viking causing a significant obstacle to their mutual alliance. Therefore, the personal relationship has a great importance in making business in Russia while formal network passes into the background. Russians' sense of uniqueness establishes mutual relationships only after personal relationships of trust are established. That is to say, the subject of the contract can be adjusted if the circumstances change. In contrast, Norwegians base their business on the contractual relationship that is predictable and easier to regulate.

***2009 – 2015 - "This is Russia — things are different here."***

Just when the foreign investor thought, it was safe to row in Russian troubled waters: the shark fin appeared suddenly, waiting for "unexpected guests" in his territory. Such was Telenor's bitter situation against unbeatable partners.

In 2009, it was announced that Telenor's shares in VimpelCom had been taken into custody following a decision by a court in the Siberian town of Omsk. Due to this conflict, the Norwegian Foreign Minister Jonas Gahr Støre told NRK (Norwegian Broadcasting Corporation) that he would take up Telenor's problems in Russia with the country's Foreign Minister Sergei Lavrov. According to (Strand, 2009) Telenor's troubled Russian venture was a topic of the discussion during the meeting. The Norwegian Minister made it clear that this court proceeding sends a signal of insecurity not only for Telenor, but also for all international businesses investing in Russia. In addition, Gahr Støre recalled the Russian President's promises to clean up the corrupted legal system (see "Dagbladet" newspaper below).



The case has come to be seen as a test of the constant power relationships between two diverse nations. None of them can swallow their prides, and nobody wants to raise the white flag. If they are not ready for open negotiations and to follow the commitments, the merger will vanish and cover with blurred distrust.

Historically, the relationship between partners have their difficulties. Misunderstandings and controversial disputes happened during the decades. In every case, there are always winner and loser. Since the beginning of this saga, the Russians and Norwegians have warred with



one another trying to prove them true. As reported by Alexei Reznikovich, head of Alfa Group unit:

*"When VimpelCom was a small company operating in Russia, it was no problem, but it's a \$10 billion company now . . . It has its own agenda that often brings it into potential competition with Telenor's other units."*

(Eisinger, 2006).

When looking for help in the court, both sides have gotten their side effect from it. Not only problem with Alfa Group, but also the fact that Alfa is suing itself on a lower management causes some consequences to Telenor as well. One of the challenges most likely would result in challenges for Telenor in consolidation of Kyivstar. Telenor brought legal charges against VimpelCom's management and blamed Alfa of confusing other shareholders and board members. Henrik Torgersen, a Telenor executive who led the push into Russia says:

*"They seem to believe that anything that is not criminal is OK. But in business there are lots of things that aren't criminal that you probably shouldn't do with your partners."*

(Bryan-Low & White, 2006).

The saga keeps on going with no definite ending. Nowadays their relationship is still tight and can be described as an unclear crystal ball. Even though there is a lack of confidence towards each other, the hunger for profit in the high-growth market makes these two giants continue the business. For that reason, Alfa Group remains enthusiastic for a broader partnership with Telenor. Tired of this endless game, cunning grin spread over Mr. Reznikovich face:

*"Sometimes you need to go through a good quarrel to understand that you want to live together."*

(Bryan-Low & White, 2006).

## 5. Discussion

In this part, we present the analysis of the case with relevant literature, answering the problem statement. Our study examines the impact of the trust, cultural differences between Telenor and VimpelCom with respect to business relationships. Further, we discuss the challenges these dissimilarities present for the Norwegian-Russian cooperation. The following questions will be asked: *What are the main characteristics of the information we found? Are there any patterns and/or relations to the trust, culture and business relationship issues?* By answering these questions, we can get a better picture of the mobile operators' preparedness to work in inter-organizational context. The findings of this section can function as a general empirical framework because they can indicate the differences between Norwegian and Russian telecommunication firms in terms of trust, cultural distance and business relationship.

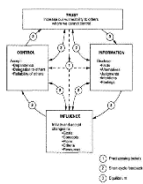
### 5.1 Trust

As has been mentioned, trust is a reliable and powerful tool to have if one knows how to use it correctly. Unlikely, some businesses abuse this type of device and turn it into mistrust by using its power inappropriately. Trust is much easier to destroy than to build it. Consequently, the logical question comes to the mind: *how can two diverse countries with a different attitude, hierarchical system, culture, values, and norms still cooperate and do the business together?*

From the case given, we have seen that both the Norwegian and the Russian side have kept necessary information or left one party behind. These types of behavior give a clear signal of weak trust issues or, in other words, more a *sign of mistrust*. Trust is therefore very dependent on transparency and honesty between businesses and thus is a quite risky action. It happens when confidence is achieved without any form of guaranty and conditions. Initially, it concerns to rely on something that has not yet happened. Further, one must rely on others volition, i.e. conditions that one can never have a direct knowledge of the contents. For instance, if someone moves to a new country with uncommon culture, norms and rules it can be a struggle for the individual to handle these obstacles at a time. However, if we start to analyze from the Norwegian point of the view regarding the Telenor expansion in the Russian Federation, the following question reveals: *Why did Telenor decide to do business in Russia?* Well, there can be many reasons regarding the answer to this issue. Moreover, one can imagine that some of the reasons can be the extension of their business and outsourcing.

There are many benefits of outsourcing, which depend on the situation of the organization. However, some common reasons are undertaken: possible lower costs due to economies of scale, faster setup of the mobile function and service, gain market access and more and broader business opportunities. Subsequently, as we know, there are always two sides of the same coin. Developing trust can take time, all depend on the situation and the businesses involved. Telenor and VimpelCom share information, responsibility, success; they extend support and introduce a culture of development and innovation. Nevertheless, from the case it seems like they do not trust each other enough though still doing business together. *Why are they still doing business together after all the problems?* It is most likely because of the enormous economic incentives seen in the mobile industry in Russia. In addition, the joint venture cooperation despite the legal issues is going on the right path. It seems that they are doing better together, rather than apart. Whatever happens, none of us can predict what the future will bring. However, it is a well-known fact that both Telenor and VimpelCom have had some years of complications and negativism towards each other.

To return to the subject, leaders in different businesses apply trust in terms of how they accept information, share authority and exercise control over power. Trust, as was mentioned earlier,



can be divided into three essential features: *information, influence, and control* model shown in **Figure 1** “A spiral model of trust”.

From our case, we have seen that leaders have used *information* in a wrong way and left other members of the staff behind while keeping selective and valuable information for them. The example is taken from the case when Alfa Group along with VimpelCom management, bypassed VimpelCom’s Board, circumvented minority shareholder protections in VimpelCom’s charter. According to Zand (1997) this episode happens when the leader does not trust the other members and, therefore, tends to hide relevant information. However, this is not the correct way to handle a situation. Our suggestion is to contact all the necessary members and then arrange a Board meeting. If it for some reason does not suit the other party’s schedule, then he should get a written feedback of the meetings’ summary.

When VimpelCom left Telenor behind for critical information, the Norwegian side devastated. Both mobile operators have had their disagreements, and they both have shown mistrust when they resist the other's effort to *influence* their decisions. The last essential feature, *control*, is a more risky one. Its characteristics connect with the regulation and limitation of another person’s behavior. It has some complications because it depends on what the others will do in the future. Leaders in this situation will most likely increase their

vulnerability and decrease their control when they let others make decisions. Accordingly, the information receiver can gather incorrect facts, diagnose the problem in a wrong way or make a poor decision that would affect the business. When leaders mistrust someone, they tend to force control and dictate the rules of the game. Eventually, it concerned both mobile operators. Referring to the episodes from the case dated to the years 2004 and 2009 – 2015 - ‘*This is Russia — things are different here.*’. Even with the lack of trust towards each other, the insatiable hunger for profit in the high-growth market made Telenor and VimpelCom continue their business. For that reason, Alfa Group remains enthusiastic for a broader partnership with Telenor. In the year 2004, the relationship had soured when VimpelCom management proposed to acquire a small and loss-making mobile operator, URS. Telenor respond with the decision that the price asked for the company was exaggerated and would require substantial investments to make the company survive. As a legal procedure requires, the acquisition proposal has to meet a supermajority of votes. However, the Telenor’s “no” to this proposition stopped the plans. Despite accepting the purchase decision the power breaking between Alfa, the owner of VimpelCom and Telenor has begun.

Moreover, trust-developing procedure involves a *calculative* process. Consequently, it can be established through one or many approaches. In the theory part, we pointed out five divisions of it: *cumulative*, *prediction*, *intentionality*, *capability* and *transference*. The foundation of the trust-building process shows how important the trust is towards the collaboration. In our case, we bear Telenor and VimpelCom in mind. Afterward, the trust has different vital processes that can be applicable to both companies mentioned above. It is likely that they commit on more than one, perhaps all five cognitive processes. The joint venture between Telenor and VimpelCom have had their difficulties. Nevertheless when Telenor entered Russia, it most likely had an opportunistic behavior toward its target, and both operators looked positively at what they could advantage and disadvantage from the entering. Using this type of *calculative* process, the trustor confers trust based on previous experiences demonstrating that the targets are predictable. Trust building through a *prediction* process requires information about a target’s past actions. Before entering Russia, Telenor should have had some risk assessment analysis about the previous history of the Russian market. Telenor should have seen the Russian market as a predictable target for them to enter. We suggest that before going to Russia, Telenor should have had some good *intentions* to seek business with them. The partners develop joint values and norms that eventually conduce to a better and broader understanding of each other’s targets and goals. To gain market share can be critical because, in the mobile market, the fixed cost are significant, but the variables, on the other hand, are

small. It will be expensive to build for example infrastructure, but the costs that are related to new customers will be close to zero. In other words, the margin can be great for those who have significant market share. However, it will be financially difficult for those who do not succeed in the large market.

The fourth process, the *capability* is about the targets' ability to meet and satisfy the needs and expectation. Telenor wanted to achieve a new market share and enlarge customers' database, therefore, saw the possibility and capability to enter Russia. Entering the Russian market was not as easy as expected, but still the Norwegian conglomerate found a way to survive in the market and is still expanding its business globally.

The last process, *transference* concerns trustee who transfers the trust from an object that exists to unknown one. In other words, Telenor did not fully understand what journey and experience he would enter, but most likely, the hunger for profit closed his eyes on some links between existed objects and some unknown ones. Telenor saw a fresh new opportunity, even though many other western investors would not see or rather would deny this tricky path. Indeed, many Norwegians companies were skeptical regarding this alliance between Telenor and VimpelCom including Alfa Group.

*However, trust concept is presented in all societies, and the differences are in how it is applied and presented among the individuals.* For example, in Norway, people tend to separate work, public and personal relationships. The rules are universal and not particular. Trust is based on rules regulating the societal system. To trust another business partner, one does not need to establish a personal relationship. Trust is created on the mutual recognition and respect of the terms of an agreement. Contrastingly, in Russia trust is not perceived as it is in Norway. The Russians trust in people that they know personally or through other people, they can trust. As personal and work spheres of life are not strictly separated in Russia, business relationships are built on personal trust to a high degree (Swahn, 2002). Therefore, the business relationship will be less predictable and challenging for Telenor and VimpelCom unless there is mutual trust at the personal level between the joint venture partners.

## 5.2 Culture

*“What sets us against one another is not our aims – they all come to the same thing – but our methods, which are the fruit of our varied reasoning.”*

*(Antoine de Saint-Exupery).*

In this part, we summarize the major cultural differences between Telenor and VimpelCom. We follow the argument that cultural awareness is one of the essential competencies of the inter-organizational company and thus critical element of the enterprise’s strategy. Here, the cultural gap will be discussed in terms of *relative uncertainty avoidance* and *relative power distance*, between the strategic partners Telenor and VimpelCom. Examples, of the different cultural variables, will be used to highlight the discussion.

In the beginning, it is important to mention that Telenor’s official website does not contain a particular section of their presence in Russia on their global presence map (Global Presence, 2015). However, the following countries have their specific division: Thailand, Pakistan, India, Bangladesh, Malaysia and Myanmar (ibid). Nevertheless, a Norwegian state-owned conglomerate has been involved in business relations in Russia through their joint venture VimpelCom with Russian business group Alfa since 1998. Therefore, when investigating Telenor’s expansion pattern in Russia, it is not enough only to look at the sociocultural differences between the international markets. In addition, also need to pay attention to the attitude of parties in relation to uncertainty avoidance.

### Relative uncertainty avoidance

*Routinization of rules:* The following distinctions indicate a fundamental difference in the parties’ tolerance of adherence and applications of procedures (Valaand et al., 2004). In Norwegian society and organizations, it is believed that rules and regulations bring the order in and structure in the society and life. Since society reflects the international firm, the same features can be applied to the Telenor Company. There is the universal approach to applying rules: the interpretation and the application of a rule are not affected by any personal relationship (Swahn, 2002). As seen in the case, in 2002, Telenor and Alfa Group signed an agreement in Oslo for extending investments in VimpelCom, including the President of the Russian Federation Vladimir Putin and the former Prime Minister of Norway Kjell Magne

Bondevik. The contract was considered for Telenor as definitive obligation, stating that both parties were expected to follow its terms and conditions precisely. Contradictory, in Russia there is a great number of rules and regulations that often exist to justify autocratic positions and reflect power distance (Swahn, 2002). We see that, the owner of the Alfa Group, the Russian oligarch, Mikhail Fridman is more interested in expanding its business pouring money into holdings valued at billions of dollars. He totally relied on Telenor, which was in charge of the management control in that period. The billionaire's interpretation of a rule very much depends on the context, including personal relations between the parties involved. We see that Alfa's and VimpelCom's management are operating with a complete lack of respect for law, transparency, corporate governance and financial controls enlightened by self-interest. The contract for the Russian oligarch is more statement of intentions rather than a definitive document. The social exchange regulated in Norway by the means of legal, economic and other formal systems is to a large degree regulated in Russia by the personal relationship system (Swahn, 2002).

This example illustrates the evident gap between the organizations' tolerance of uncertainty and ambiguity. *While Telenor held a low tolerance level of ambiguity, preferring highly detailed procedural systems VimpelCom had a high tolerance level for ambiguity and favored an approach that was less systemized and operated on trust, private relationship and a functional contract rather than an definite contract.* With VimpelCom preferring a different approach to the use of procedures and systems when compared to Telenor, the resulting ambiguity caused Telenor to feel uncomfortable being in joint venture agreement.

The following case in point indicates a fundamental difference in the parties expected codes for proper behavior. Wherever Telenor engage in international operations, they make an effort towards incorporating the foreign department into the Telenor Group. The Telenor Logo is implemented in all Telenor operations in emerging markets except VimpelCom. The evident of vision-culture-image misalignment is noticeable in this joint venture. The fact that both parties have signed the contract and have procedure manuals in following the corporate rules does not mean that each party will benefit to an equal extent from the mutual agreement. It makes us think that VimpelCom does not see itself as a part of the Telenor Group and prefer to enter the market where it will be in direct competition with other Telenor operations. The result has been that today Telenor is seen as an inferior or more of an investor in VimpelCom than being his equal partner.

### Relative power distance

*“Impossible is possible in Russia, and possible is impossible.”*

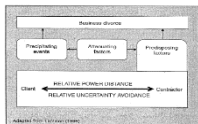
*Rune Castberg (1998).*

*Agent-principal distance.* The differences in legal aspects also played its enormous role. Rules and laws are used to ensure stability and reduce the uncertainty. In our case, the Norwegian side did not take into consideration the legal regulations of the Russian legislation while falling into the trap of being “unaware of the host country’s laws.” In Russia, shareholders are legally responsible for lawbreaking of directors they nominated. According to Article 6(3) of the Federal law 'On Joint Stock Companies' a shareholder can be liable for damages to the company whose shares he owns, if the shareholder, knowing that a decision would cause damage to the business, procured such a decision to the firm's detriment (Vermin, 2009). It was discovered that VimpelCom's directors, appointed by Telenor, acted in its interests and not in the interests of VimpelCom when they were against of the purchase of a telecommunication company in Ukraine. According to the complainant and later admitted by the Supreme Court of Arbitration, Telenor did not want VimpelCom to compete with KyivStar, where he was a primary stakeholder. Alfa, which also had a stake in KyivStar, had to call a general meeting of shareholders to approve the deal. Nevertheless, the court did not reveal the following issues: *what kind of facts must be established by the Supreme Court to conclude that a manager acted in the interest of a third person or where a legitimate difference of opinion ends and lawbreaking begins?*

*The structure of hierarchy.* We suggest that one of the strongest factors on which Norwegian and Russian societies differ is their hierarchical structure. Norwegian society has a flat and egalitarian structure with few hierarchical levels while the Russian one represents a tall hierarchical pyramid with many levels and complicated relationship between them (Swahn, 2002). The same characteristics may be applicable to the organizational structure. In addition, Russia is considered a country with robust investment climate, however, many foreign investors try to avoid investing in it due to inadequate legal protection along with a high level of bureaucracy and corruption. The crux of the matter is that Telenor lost all legal cases that were brought “*by shadowy shareholders and heard in obscure Siberian towns in what were seen by international observers as politically driven rulings*” (Wellhausen, 2015). Later, the Russian



President himself has admitted that Russia's courts are unpredictable and need urgent reformation (Courting Disaster, 2009). In 2009, during the negotiations the Norwegian Foreign Minister Jonas Gahr Støre recalled Mr. Putin's promises to clean up the corrupted legal system. Eventually, Telenor has a democratic relation between the superiors and the subordinates, while in VimpelCom most of the crucial decisions are not made by consensus including Norwegian management, but by the hierarchical status of the Russian stakeholders. As a result, VimpelCom seems to be more equipped than Telenor to deal with the business environment in Russia. The Norwegian mobile operator appears to make quick assumptions about their protection through the legal framework and written agreements while the VimpelCom continually considers options to protect their interests. According to Khanna and Palepu (2010) *a multinational enterprises should compete alone if there is a high degree of uncertainty related to trust and property protection even if they have little market knowledge*. There are grounds to raise questions about if Telenor should be in a joint venture agreement with Russia due to the insecurities regarding law enforcement in the country. When they still choose to do so, they should carefully consider the options that their partners may not be trustworthy, or at least unreliable. It is obvious, but not surprising that Telenor is not adequately prepared for the challenges that may arise from having a joint venture partner with thorough experience from the unstable environment in Russia. However, it was Mr. Baksaas, the CEO of Telenor, who once proudly exclaimed: *"Telenor has zero tolerance towards corruption."* Despite this, he still

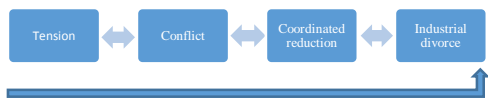


sits on the same table as the Russians.

To sum up, the Alfa Group along with VimpelCom showed higher relative power distance attributes than Telenor as illustrated in **Figure 2**, *"Business divorce and predisposing factors."* The differences resulted in contradictory approaches to interactions within the relationship, as well as to outside actors. *The contradictory methods lead to increased levels of conflicts, making this joint venture as a candidate for the divorce process in the future.*

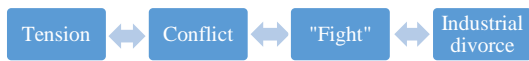
### 5.3 Business Relationship

The concept of trust and the concept of culture is closely linked with the notion of business relationship. These three topics are related to each other and give a whole picture of the situation of Telenor and VimpelCom. For having a strong business relationship, the participants need to share trustworthiness, transparency and honesty. If these are not a priority towards the company, it can easily trigger a conflict. A conflict does not need to be a negative approach, but it is used to create necessary changes. Some conflicts are more crucial than others. However, common for every conflict is that it has a starting point and an ending point. An example from the case would be the episode with a black PR campaign against Telenor in Kiev. The target was to destroy Telenor's reliable image and to harm any Norwegians living in the capital city. The screaming billboards appeared in the streets: "Norwegians! Respect Ukrainian laws!." Nevertheless, this action did not take support from local citizens, and it was evident that the whole campaign had no positive effect. As we see, the end of this PR campaign has a neutral outcome where none of the parties suffered. Consequently, the end of the conflict depends on the results of the situation. In most conflicts, neither side is right or wrong. However, different perceptions collide to create disagreement. A conflict between two companies is a natural consequent, and it is up to the business leaders to respond to it quickly and professionally. If not, the parties would most likely end up in business relationship divorce. *Some business relationships can be saved, others are meant to end up in divorce.* As we have shown in the theory part, there are two types of divorces: *constructive* and *destructive*. The following section will more carefully examine the first type of the divorce, constructive one with a "nice output". In the Russian telecom industry, the Norwegian mobile operator Telenor has been in a business relationship for more than 15 years. According to the

 constructive model illustrated in **Figure 3**, *Constructive divorce/ "nice output."* Telenor would adopt a business model only applicable for the Russian market.

Therefore, the tension would be here that the Norwegian mobile network operator purchased into existing operations rather than trying to acquire "new initiator" permission. The conflict might appear regarding the share of the stakes in the joint venture. Therefore, the coordinated reduction happened when Telenor collaborated with local investors or outsourced some of the tasks reaching an agreement about non-controlling stakes. This movement resulted in "nice output" helping Telenor to avoid the unstoppable corruption in order to get the license for

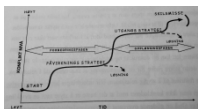
establishing the business. On the other hand, we have the second scenario of *destructive divorce* with “unattractive output”. Another example of the model shown in **Figure 4**,



*Destructive divorce/ “unattractive output”* could

be the tension period in 2004 when VimpelCom management proposed to buy loss-making Ukrainian mobile operator (URS). The conflict happened when Telenor refused to accept the proposal by not meeting the supermajority vote demanded by the Board. This protest stopped the mutual plans. However, the acquisition of the URS was made by Alfa, the owner of VimpelCom by hiding crucial information from the Board of Telenor and VimpelCom. As mentioned in the case, this action leads to the “fight” part which ended up with legal procedures. The business relationship issue along with the trust- and cultural difference concepts did not compromise its ethical standards. This episode, lead to “unattractive output” rather than the constructive divorce. Generally speaking, there is always a tension between Telenor and VimpelCom. Some of the tensions even might be hidden or unknown, and others are more predictable and have a logical consequence. The way the tension is solved can be seen as a process where the companies Telenor and VimpelCom face the different options about how the relationship with Alfa Group should be handled.

These options can be pointed out as the result of the conflict level, but also something that affects this level. From our case, we can see that the “secret agenda” of Alfa Group causes the imbalances in the Telenor VimpelCom joint venture. The consequence of this conflict might have a potential for business relationship divorce in the future. Despite, as seen from the case, it is essentially not a condition for termination. Under those circumstances, the *voice* and *exit*



strategy can be distinguished which illustrated in **Figure 5**, *Different phases toward breakups*. We suggest that for the *voice strategy* the way out for

Telenor is the acceptance of the present situation and maintaining the relationship as of today. The Norwegian operator keeps the survival rule in mind: “*Even if we (Telenor) lack of trust, hunger for profit makes us continue the business relations with VimpelCom*”. In other words, the mobile market is so profitable in Russia, that the Norwegian side accepts being cheated for the sake of fortune. Moreover, they ready to shut their eyes to the corruption issue. It is hard to argue with the fact that profit-oriented business always tries to keep its position as long as possible. It is clear that the Russian domestic market has the needs of more than 150 million citizens, which have not been satisfied yet. *Exit strategy*, on the other hand, would imply that Telenor wants to terminate an existing relationship with VimpelCom including its owner Alfa Group, which caused continuous headache during the business affair. In this option, Telenor has to sell the shares of VimpelCom, which would hurt its financial

sustainability. According to Telenor Chairman Svein Aaser it would cause significant losses for the company: *"It would have been great to get rid of the VimpelCom shares, but to sell at today's level would be to rob Telenor's shareholders"* (Jacobsen, 2014). In our opinion, this is the strategy that Telenor would not prefer to follow at the moment.

#### 5.4. The concept of Co-dependency in Business

Under above said circumstances, we came up with a new concept of the business relationship between Telenor and VimpelCom that is called *co-dependency*. This term is taken from the psychology, and we think applicable for our relationship analysis. Robert Subby defines co-dependency as *"an emotional, psychological, and behavioral condition that develops as a result of an individual's prolonged exposure to, and practice of, a set of oppressive rules"* (McCreary, 2008). It is also known as "relationship addiction" because people with codependency often form or maintain relationships that are one-sided, emotionally destructive and/or abusive (Mental Health America, 2015). Sometimes, *co-dependency* term can be mixed up with *interdependency in business relations*. Thus, it is essential to distinguish a difference between these two definitions. According to Lancer (2013), co-dependent partners are usually out of balance, and this makes them struggle for power and control. Here are some features that can be applicable towards Norwegian and Russian joint venture: *"There may be an imbalance of power, or one partner may have taken on responsibility for the other. Then they try to control each another to feel okay and get their needs met. Rather than respect each other's separateness and individuality, they cannot tolerate disagreement and blame one another for causing their problems without taking responsibility for themselves. Sometimes, what they dislike in their partner is the very thing they cannot accept in themselves"* (Lancer, 2013). We see these co-dependent patterns in Telenor's behavior in coping with VimpelCom and Alfa Group. It seems to us that the profitable cellular market share of Russia, even though it is corrupted and hierarchical made the Norwegian mobile operator stay in the present situation.

In contrast to co-dependency, *interdependency* makes interconnections healthier. Indeed, this relation requires from joint venture partners to function independently, share power equally and take responsibility for their action (Lancer, 2013). Usually, partners reach the mutual agreement by consensus and equal contribution to the relationship. Lancer (2013) further argues: *"Because they have self-esteem, they can manage their thoughts and feelings on their*

*own and don't have to control someone else to feel okay. They can allow for each other's differences and honor each another's separateness.*" However, this phenomenon we do not observe in our case. In opposite, it turned out a habitual way for Telenor to react on unhealthy cooperation between its Russian and Ukrainian partners.

At the present moment, Telenor together with VimpelCom continues the acquisitions of both Russian and Ukrainian mobile operators. As the mergers are still going on the reluctant argument comes to our mind. VimpelCom's chief executive Alexander Izosimov had raised this dispute. He was hired as top manager of a VimpelCom with instruction to expand the company through acquisitions and mergers. Moreover, Izosimov claims that there are "*few M&A (Mergers & Acquisitions) opportunities in a market of this caliber.*" Therefore, he interrogates: "*What is Telenor going to use its (pre-emptive) rights for? I do not understand why Telenor will throw good money after bad if they believe that the acquisition is such a bad idea?*" (Pan, 2010, p.12). The answer could be that Telenor accepted being co-dependent as he sees a big fortune in emerging market. When the value of profit is more than the value of trust, the co-dependent effect is obvious. From our point of view, this concept is not only fatal for inter-organizational relations, but also terminates the Telenor VimpelCom joint venture growth. Therefore, there are grounds to raise questions about if Telenor should be in a joint venture agreement. Instead of merging, it is rational for Telenor compete alone or sell the business when it is mature enough. Otherwise, this joint venture is a good candidate for the business divorce.

Overall, we think that co-dependency between business partners is a vastly under-explored area. Therefore, need more resources in this category as our study opens up a broad path for the future research.

## 6. Implications

Trends and tendencies that have been put forward in this study are not intended to serve as general conclusions. They will not be applicable to other contexts, as literature and worldview constantly change. The study is designed to be a starting point to look at the important concepts of trust, cultural distance, and business relationship.

Our case analysis demonstrates that trust is a necessary issue inter-organizational companies have to rely on in building business relationship with Russian partners. Further, it has been mentioned some of the issues between Telenor and VimpelCom joint venture that connected with trust are mistrust, power, and cooperation, which are applicable to our investigation. The power distance increased the level of conflict and mistrust contributed to relationship dissolution. Based on the theory we highlighted that the *existence of organic growth between Telenor and VimpelCom is quite challenging and currently not reachable due to several predisposing factors*. *First*, the cultural distance, both in terms of relative uncertainty avoidance and relative power distance existed between two companies. *Second*, the parties had different tolerance level with respect to rules and business ethics. *Third*, VimpelCom considered a relationship with Telenor more as a hierarchical relationship rather than an identical one. *Fourth*, both Norwegian and Russian mobile operators used mutual legal sanctions in the case of non-fulfillment. Lastly, *fifth*, the realistic fact is that Telenor's and VimpelCom's interests collide on almost every single foreign policy issue as it seen from the case. Again, proving that these differences connected to the trust and cultural distance concepts between the inter-organizational firms made it difficult for the partners to solve joint problems by cooperation. Alternatively, the conflict reached its peak point where the colleagues were unable to negotiate and, therefore, had been nominated as *a good candidates for the business divorce*. It was stated that cultural distance was one of the crucial predisposing factors that made it demanding for the Telenor and VimpelCom joint venture to implement the proper modification and solve the conflict.

In addition, our research discovers that complicated business relationship factor is also important for broader understanding the upcoming divorce. We have seen that business relationships can be considered as evolving gradually over the time through certain phases, from the establishment to end. However, it is not only the business relationship concept that lead to relationship termination, *but rather the parties' lack of trust in each other and incompetence to overcome cultural diversity makes them candidates for the relationship divorce*.

Our reasoning is that the inter-organizational companies such as Telenor and VimpelCom need the knowledge about cultural features of each other. In our opinion, this awareness should be incorporated into the companies decision-making and strategy development processes. As the increasing numbers of Norwegian firms are running business in the Russian market, there is a need for the studies that will provide an insight into the cultural features and the inter organizations functioning. We believe the findings will help to point out the problems and will suggest some ways to avoid it in the future.

## **7. Limitations**

The research field of inter-organizational relationship is extensive; therefore, we need to distinguish which aspects we would focus on our thesis. Our limitations and weaknesses are critical for being able to present a manageable theoretical framework. In accordance with our method of data collection, the limitation is mostly of gathering information from secondary Norwegian and Russian sources including mainly mobile operators' official websites. We think that the major barrier and weakness in exploring the relationship between Telenor and VimpelCom is a lack of access to companies' financial reports. In addition, the informational part requires traveling to Russia and consuming more time and recourses to gather information in order to build high-performance research values.

Moreover, Russia is the country in constant development where conditions change continuously. The research that has been done in this paper will therefore quickly become outdated. It is, therefore, important to continue research on the relationship between Telenor and Russia and the concept of trust, culture and business relationship.

## 8. Conclusions

In our master thesis, we wanted to explore the influence of trust, cultural distance and business relationship in an inter-organizational collaboration with a specific focus on Norwegian-Russian business relations within the mobile and telecommunications industry. Our research questions and problem statement were:

- *How can trust, cultural differences and business relationship impact the joint venture partners (Telenor and VimpelCom) while still working together and having a possibility to end up in business divorce?*
- *Why Telenor still cooperates with VimpelCom knowing the risk of being in the joint venture? Moreover, keeping the Chinese proverb in mind: “Fool me ones, shame one you. Fool me twice, shame on me” we will try to analyze the purposes why the Norwegian mobile operator does not leave the troubled Russian market.*

Our study has disclosed how the lack of ability to handle conflict had an unfavorable effect both on the inter-organizational company and relationship between Norwegian and Russian mobile operators. The trust concept, cultural distance and problems in business relations between two firms were the significant factors that may explain why the conflicts in joint venture started to escalate. The factors mentioned above make the relationship in joint venture predisposed to termination in the future. It has been emphasized that the existence of organic growth between Telenor and VimpelCom is quite challenging and currently not reachable due to lack of trust, a large gap between two cultures and infraction of the business relationship issue. In addition, our vision of the business relationship between Telenor and VimpelCom is connected to the *co-dependency in business* – “relationship addiction” concept. From our perspective, this idea is not only destructive to inter-organizational relations, but also terminates the Telenor VimpelCom joint venture growth. Therefore, we suggest if the companies, prior to entering the relationship, had been more concerned about trust, cultural diversity, and business relationship, two options would be available. *First, the relationship could have been avoided leaving the parties with the choice to search for other trustful business partner or acting alone in emerging country.* In other words, Telenor could compete in the Russian mobile market alone not entering into a joint venture agreement with OJSC VimpelCom. If not, this joint venture is a good candidate for the business divorce. *Second, the relationship could have been entered, but with more attention to the inherent trust,*



*cultural differences and mechanisms for reducing the risks.* That is to say, Telenor before committing to a joint venture has to review its business strategy that would help to define what it could realistically expect from the Russian market. For that reason, trust, cultural distance, and strong business relationship should never be underestimated in efforts to avoid a counter-productive divorce from your business partner.

## **9. Further Research**

The results shown in this study should encourage other researchers to investigate further and analyze the three concepts: trust, cultural distance, and business relationship. However, future theoretical and empirical studies, should try to explain thoroughly this type of research and understand the relevance and importance of different predisposing factors that lead to business divorce in the joint venture. Researchers should also look more into a different aspect of the trust issue. For example individual trust and how trust in lower dimension will affect the higher hierarchy leaders. Moreover, when it comes to culture, one could study more into how two different countries with different background can overcome the cultural difficulties and negotiate for working together on mutual legal and human ethics. Finally yet importantly, referring to the business relationship concept. It is also an enormous area of research as well as the other two ideas. However, it would be interesting to analyze two companies from the beginning of their relationship. For instance, to trace the history of joint venture development, the disagreements, and how they handled the conflict situations. From the applied theory in our paper, we see that some businesses are meant to be together, and others are intended to end up in a divorce. In addition, a deeper understanding of what concepts makes the relationship more vulnerable to the dissolution will further contribute to a better and broader theoretical understanding of the three concepts. These conditions are essential for developing and maintain a successful relationship between two countries with a different background.

Overall, we believe our mission will contribute to more and deeper understanding of the inter-organizational relationships between Telenor and VimpelCom along with the Norwegian and Russian cultural aspects. Finally, we hope that representatives of the both mobile operators will take advantage of reading our project implemented with functional ideas and build a healthy and sustainable connection in terms of the trust, culture diversity and business relationship.

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