

INTERNATIONAL BUSINESS
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INTERNATIONAL CONSULTING FIRMS IN RUSSIA

A STUDY ON HOW TO UNDERTAKE EFFECTIVE CONSULTING
SERVICES IN THE RUSSIAN BUSINESS ENVIRONMENT

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“We could not survive if we could not respond to the local conditions”
-Manager in Russia

ABSTRACT

After the fall of Communism in Russia, the country's business environment has indeed changed and is today characterised by high volatility and unpredictability. The international consulting firms, which we are focusing on in this thesis, have an important role in consulting and guiding both foreign and local enterprises active in this new environment. We are looking into the international consulting firms' ability to provide effective services on this specific market. As country culture determines the way in which individuals behave and in turn also affects the Russian business behaviour, this is a major focus in our thesis.

We have found that international consulting firms' services are especially sensitive to culture since these can be experienced and perceived differently depending on who the receiver is and therefore they have to be adapted to the local business environment.

We believe that in order to be effective in the Russian market, it is indeed important for the international consulting firms to adapt their services according to the local specific business environment and its characteristics. With regard to design, delivery and implementation a tailor made service has to be made. Therefore the consulting firms need to have a thorough understanding of the client, his resources and capabilities and the specific business environment that he operates within. For a consultant it is crucial to have the ability to reflect over how country culture influences the business environment and thereby, the consulting service. We have found that international consulting firms need to find ways in which they can better integrate the cultural understanding in their everyday work. Today they use mainly local personnel and build teams with clients in order to improve effectiveness. However, we believe that this is not enough but needs to be combined with other methods. Our main recommendation in this matter is to implement a learning organisation in the international consulting firm.

Keywords: Russia, international consulting firms, country culture, Management Sovieticus, effectiveness, adaptation

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1 INTRODUCTION

In this chapter we present a description of the background to our study and further specify our main problem, sub problems and purpose. We will also describe the delimitations we have made. Moreover, in order to give an overview we will present an outline of the thesis.

We have always been interested in operations of enterprises in foreign countries, having a cultural setting quite different from that of the enterprise's home country. It was, however, during the course on "Big Emerging Markets" when we really understood the major impact that country culture has on the enterprise business environment in various countries. In addition, this influences the effectiveness of foreign enterprises' operations in these countries. By not fully appreciating the impact of country culture, enterprises are prone to make mistakes in designing and executing their strategic and functional activities in foreign countries. It would be possible to avoid such mistakes if enterprises had a better and deeper knowledge of how the cultural traits of a country affect the behaviour of people and thus, the operations of enterprises in specific countries.

International consulting firms have an important role in assisting enterprises active in foreign countries. The question is though, to what extent the international consulting firms appreciate the specific cultural aspect of a country when providing their traditional technical services, such as auditing, accounting, tax and legal and management consulting, to foreign enterprises and also to local enterprises in the country where these firms are active. Such an appreciation would enhance the effectiveness of traditional technical consulting services, provided that the design, delivery and implementation of these services are adapted to the specific cultural setting of the specific foreign country. This is the issue focused on in this report, especially with regard to activities of international consulting firms in Russia.

1.2 Problem Background

Within the context of an increasing globalisation of the world economy, a vast number of enterprises are expanding their activities beyond their national borders into countries with foreign business environments. While the globalisation process has entailed a certain degree of standardisation among countries, what tends to remain relatively resistant to standardisation and change have been the cultural traits of countries.

When the communism collapsed in the Soviet Union, the transition towards a democratic market economy system could begin. This transition encouraged foreign enterprises to establish activities in Russia, to exploit vast potential business opportunities in the country. However, this also meant that foreign enterprises had to deal with a Russian cultural setting, which is quite different from that of Western market economy countries.

Differences among countries in business environments can be defined by identifying the institutional setting of a country, providing rule systems for the behaviour of human beings. Of particular importance in this context is the role of country culture, which generally govern all other institutional rule systems. This is perhaps particularly so in Russia, which has very specific cultural characteristics. To be able to cope with these defines the effectiveness of foreign business operations in the country. This establishes a fundamental strategic tool for being successful in Russia and for reaching competitive advantages over other foreign firms active in this country.

1.3 Problem Focus

International consulting firms can have an important role in assisting both foreign and local enterprises undertaking business activities in Russia. However, to execute this role in the most effective manner presupposes that the consulting firms would be able to provide services, which with regard to their design, delivery and implementation are well adapted to the specific cultural setting in Russia

Already in the initial stage of the opening up of the Russian market, international consulting firms with a successful record in Western country markets entered Russia. However, often without any major prior experience of the specifics of the Russian business environment, these consulting firms started to offer their services to both Western and local enterprises active in the country. The result was often that enterprises were provided with expensive consulting services, that they were not able to use optimally, as these services were not developed according to the requirements of the cultural setting in Russia. The Western enterprises would have needed consulting services adapted to the local Russian business environment and the Russian enterprises would have needed services that were appropriate given this environment. The issue is now to what extent international consulting firms have been able to improve their activities in Russia by providing, over time, technical consulting services which are better adapted to the requirements of the local Russian business environment, particularly with regard to the role that the Russian country culture has in defining this environment.

1.4 Problem

The main problem focused on in this thesis, with regard to international consulting firms active in Russia, is:

How to enhance the effectiveness of technical consulting services by better adapting the design, delivery and implementation of such services to the requirements of the specific country cultural setting?

Effectiveness has to do with if the consulting firm really achieves what it intends to achieve with its services. In order to be effective the design, delivery and implementation of technical consulting services (accounting, auditing, tax and legal, etc.) must be adapted to local requirements. Such services provided to enterprises in Russia cannot be standardised in a Western context, but have to consider the specific cultural setting and characteristics of the country in which they are going to be applied.

Sub problems:

1. What are the characteristics of the specific cultural setting in Russia, and what impact has this on the management styles of enterprises undertaking business activities in Russia?
2. To what extent and how do the international consulting firms appreciate cultural differences between the Western and the Russian business environments and how does this affect the activities of the international consulting firms? The question here is to what extent the international consulting firms are aware of existing cultural differences, and whether these are considered in the support provided by these firms to Western and local enterprises in Russia.
3. If international consulting firms are considering the cultural setting, how are their services adapted in order to suit the specific cultural setting in Russia? This concerns the issue of the effectiveness of services provided by international consulting firms to enterprises in Russia.

1.5 Purpose

The purpose of this thesis is to explore the extent to which and in what manner international consulting firms take culture into consideration when providing technical consulting services to enterprises in Russia. Moreover, given this, the purpose is also to provide recommendations on how to enhance the effectiveness of services provided to enterprises in Russia by international consulting firms.

1.6 Delimitations

The purpose of our study includes understanding how to improve the effectiveness of international consulting firms in Russia. Therefore we will look into aspects that we believe will affect the effectiveness of the consulting firms. In this aspect we will not measure the effectiveness as such of the consulting firms, but rather find out what it is that can make them more effective.

The focus in this study is Russia, as this country has a very specific cultural and historical setting that to a great extent differs from the setting of Western consulting firms. Further, the historical and cultural background has an impact on the business environment and the services that consulting firms provide. As it is difficult to understand another country's culture thoroughly we have made considerable efforts to gain as much background knowledge as possible of Russia's history, and economic and social development. We have investigated the Russian culture, as thoroughly as we are able to and therefore we believe that there should be no obstacles for readers that want to use our theories or results.

However, since all Western countries have their own ways of managing and in order to show the differences and better understand the situation, we have put Russia versus the Western market economy with their specific values and managerial characteristics.

As Russia is the largest country in the world, we chose to focus our study on the European part of Russia. This choice is in the line with our purpose as most of the foreign investments are made in this part of Russia, and as it is here most of the international consulting firms have their main offices and the larger part of their customers. When studying the Russian culture it is also important to realise that in such a large country the culture differs also within the country, which is another reason why we have delimited the study to cover the European part of Russia. When referring to Russia or Russians, we mean therefore the people living in this region.

Moreover, this study focuses on large international consulting firms, namely Arthur Andersen, Arthur D Little, Deloitte & Touche Tohmatsu, Ernst & Young, KPMG and McKinsey, regarding their operations in Russia. We focus on these firms since they originate in Western countries and operate on a global basis and, in addition, are among the dominating consulting firms on the Russian market. We will also look into specialised cultural consulting firms, as these mainly provide cultural advice, but only for the purpose of better understanding how to deal with cultural support. The specific focus of this study is how international consulting firms can consider the

specific cultural setting and environment in order to improve the effectiveness. We have not considered local consulting firms, as we are focussing on investigating the Western firms' activities in the transition countries and how these firms' performance can be improved.

1.7 Structure of the Thesis

The point of departure in our thesis is the introduction chapter, which provides a general background and a presentation of the problem, purpose and delimitation. Here we will discuss why culture is of such importance. Altogether we have seven chapters that aim to solve the stated research problem.

In chapter two we discussed our methodological standpoint, with explanations how the study has been conducted and why it was done in that way. The quality of the report is also discussed.

The third chapter, our theoretical framework, we present the institutional theories, but focus on cultural theories. This chapter is important for giving us the understanding needed for solving the research problem. Within the cultural theories, various dimensions are brought up and under each of these we conclude with relevant business implications.

In chapter four, we give an understanding of Russia by analysing the country in a historical context. We introduce the history of Russia and explain the Management Sovieticus system and how it is transforming into the Management Transitus system. Furthermore, we present cultural dimensions applied to Russia and its people and what business implications could be detected from this.

The international consulting firms in our study will be briefly presented in chapter five. Here, we also give a background to the consulting firms' activities on the Russian market.

Chapter six contains our empirical analysis where we answer our main problems and illustrate implications that can occur. The analysis furthermore functions as a base for our conclusions drawn. In our

analysis the cultural setting and the management styles are discussed and how these affect international consulting firm's activities and how they cope with cultural traits today.

Chapter seven concludes this thesis with our conclusions and recommendations presented. Here the problems are answered and the purpose fulfilled. In the recommendation part we will give some concrete suggestions for future business of international consulting firms operating in Russia. We end our thesis with areas for future research.

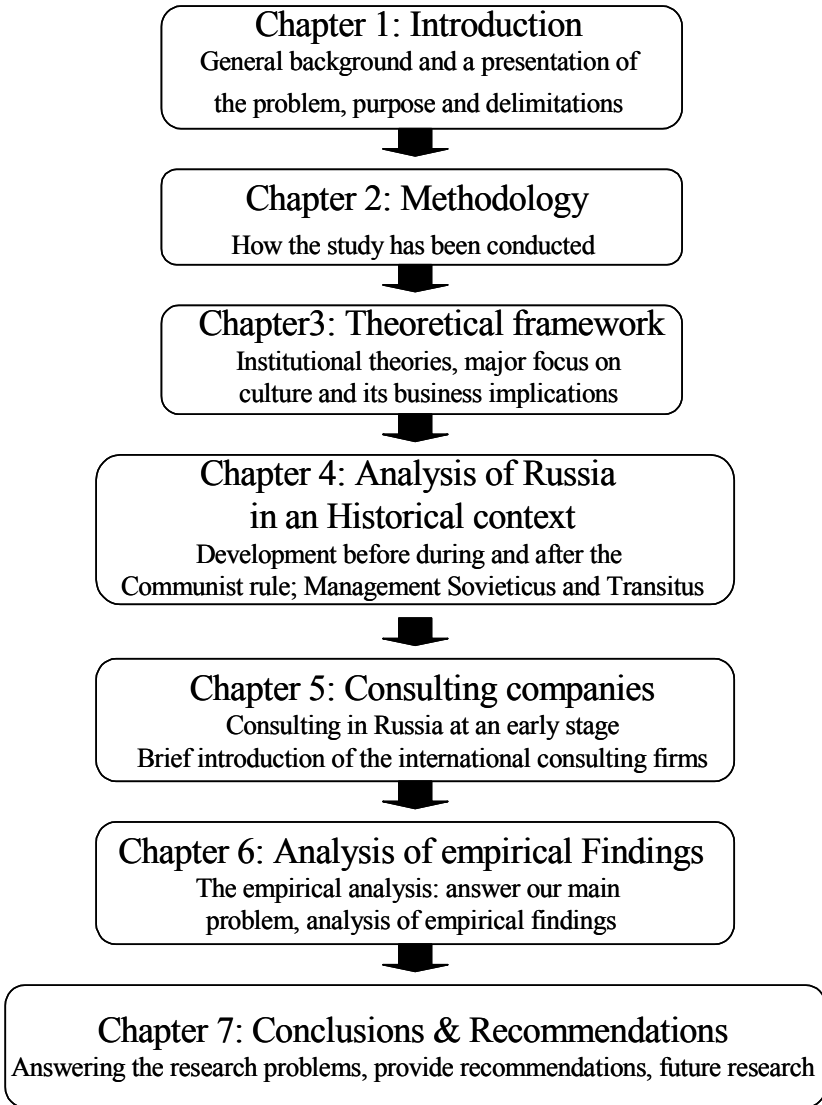


Figure 1.1 Structure of the thesis

Source: Own

2 METHODOLOGY

This chapter presents how the research process has been outlined and why we chose the specific research method applied in this thesis. The chapter first discusses research strategy, followed by an explanation of how the data collection was made and the chapter concludes with a scientific evaluation of our thesis.

2.1 Research Strategy

2.1.1 An Explorative Descriptive Approach

We started with an explorative approach to this study in order to see to what extent the consulting firms pay attention to the cultural traits when designing, delivering and implementing consulting services in Russia, and what actions are taken considering this. We wanted to become more familiar with the issue and studied theories relating to this. The structures that can be used in an exploratory study are linear-analytic, comparative, chronological or theory building approaches. We use a linear-analytic structure for our study. This is a structure that starts with the statement of the problem being studied, a review of the relevant prior literature, the methods used, the findings from the collected data analysed and the conclusions and recommendations from the findings.¹ The exploratory approach is normally used when there is little or nothing known about the phenomenon studied. Problems are identified and structured and the goal is to develop hypotheses and propositions for future inquiry. Furthermore, our approach became more descriptive as we started to describe our findings. The aim of the descriptive approach is to describe the event that has previously been explored, and to study the development of the specific phenomenon under investigation.

According to Yin, there are five research strategies: experiment, survey, archival analysis, history and case studies. Important to note is

¹ Yin, p. 138, 1994

though that more than one strategy can be used and even overlap each other. The choice of strategy is dependent on three conditions in the study:

- The type of research question posed
- The extent and control of events
- The degree of focus on contemporary events

As we are using research questions such as how, and have no control over the events that we are studying and in addition focus on the co-existent situations in the study, we use a case study strategy. We have chosen to do a multiple case study, in order to gain a more in-depth understanding of the consulting firms and their situation. In general, case studies are the preferred strategy when “how” and “why” questions are being posed and when the focus is on a contemporary phenomenon within some real life context.²

2.1.2 Case study

A case study is an empirical study that investigates a phenomenon, which in some way is in a bounded context. The data collected can further be derived from multiple sources of evidence that converge in the analysis to form conclusion for the study³.

Multiple case study can be distinguished from single case studies as the former involves collecting and analysing data from several cases and the latter can have subunits embedded within.

We have chosen to do a multiple case study since the purpose of our study is to explore the extent to which and in what manner international consulting firms take culture into consideration when providing technical consulting services to enterprises in Russia, and how they can enhance the effectiveness of services provided to enterprises in Russia. Following this, we will compare what different factors make the consulting firms effective or not in Russia. This

² Yin, p.1, 1994

³ Yin, p 13, 1994

comparison will though not be done with regard to whether one consulting firm is more effective than another. Instead we will compare the different findings derived in the study and use these to get a more compelling picture of the existing situation, which thus will enable us to solve our purpose. A single case study would allow us to penetrate the problem more in depth, however, this would only show one angle of the problem, which we believe is too narrow in our case. In a multiple case study we will be able to reach a more complex picture of the situation and find new perspectives and different angles of the issue, which we would not obtain in a single case study. Furthermore, it is more accepted to make general conclusions from a multiple case study. As we will provide possible answers and solutions for the consulting firms, it is necessary for us to be able to make general conclusions over the consulting industry. By including more cases and greater variation across the cases in a study, more compelling interpretations and evidence are likely to be derived and the whole study is therefore regarded as being more robust.⁴ Miles and Huberman motivate the multiple case study with the following:

“By looking at a range of similar and contrasting cases, we can understand a single-case finding, grounding it by specifying how and why it carries on as it does. We can strengthen the precision, the validity, and the stability of these findings”⁵.

Multiple case studies generally require very extensive resources and are time consuming, therefore, we have avoided the negative effects from this by at an early stage gathering resources and information to create solid knowledge-base to start the study from.

2.1.3 Research design

Four types of research designs can be used in case studies: single case designs, multiple case designs, holistic designs and embedded designs. We use a multiple case design as the study concerns different

⁴ Yin, p. 45, 1994

⁵ Yin, p. 29, 1994

consulting companies active in Russia, and as mentioned makes more than one single case study. This is appropriate when research is done on independent innovations occurring at different sites, which is the situation for our study. We are not using a single case design, as this is used when a theory is going to be tested on a case or when an extreme is going to be studied. Furthermore, the multiple case study is in our case holistic as it examines the global nature of the problem and is suitable if the theories underlying the case are holistic, or when no logical sub-units can be detected.⁶ On the other hand an embedded approach can be used, although this means that the case study includes more than one unit of analysis and focuses on sub-unit or units and their outcomes within the case study.

	Single-case	Multiple-case
Holistic	Type 1	Type 3 ← Our case Design
Embedded	Type 2	Type 4

Figure 2.1 Research Design
Source: Yin, 1994

2.2 Research method

There are two research methods, namely qualitative and quantitative research. We have chosen to do a qualitative study, as we have collected and analysed the data from field studies in Russia. This has involved fieldwork in order to learn about Russia's culture and how business is conducted here. Data collection is necessary to undertake on site for the research to be valid.⁷ We have tried to get close to our interviewees and really understand their opinions and perspectives. The closeness to the respondents is something that characterises a

⁶ Yin, p. 42, 1994

⁷ Merriam, 1998

qualitative interview and makes it differ from a quantitative one.⁸ However, there could also be a risk with qualitative interviews if one becomes too subjective and lets own feelings and interpretations affect the result too much.

Qualitative research is primarily done of in inductive way, the researcher's main objective is not to test existing theory but to build own hypotheses and concepts. The observations and fieldwork allow the researcher to build theory based on data collected in the field. It is not about matching existing theory with the data, but to explain a phenomenon by introducing elements of a new theory.

2.3 Data Collection

2.3.1 Secondary data

In the initial stage of our study we found it important to gain a pre-understanding of our problem. Therefore, we collected a large amount of material from a variety of books, articles, journals and Internet web pages describing the phenomena culture, the Russian history and business environment, as well as the consulting industry, their services, and how they conduct their businesses. This kind of material is called secondary data and is previously written for another field of study and therefore not specifically aiming at our study, however it could be used to get valuable inputs and a greater understanding. One can find the secondary data both within an enterprise, internal data, and outside it, external data. The internal data we have used is the information found on each consulting firm's homepage and their additional information brochures, such as "Doing business in Russia". We have mainly used articles and books that are external data collected from outside the company. One could get relatively far in the research by only using secondary data but there could be problems regarding quality of the material and the fact that it is not specifically written for our specific study. In order to achieve the best result and increase the validity of the study, it is best to use both secondary respectively primary data.

⁸ Carlsson, 1991

2.3.2 Primary data

Our primary data have been collected by meeting people for personal interviews and one telephone interview. Interviews are one of the best ways to obtain primary information and for that reason we have conducted in-depth interviews. These first hand sources have been Partners, Managers and Consultants working for the studied consulting firms in Moscow, as well as Swedish consultants in Gothenburg and Stockholm who have some experience from the Russian market and in addition two principals of cross-cultural consulting firms in Amsterdam and in Gothenburg respectively. Our empirical material has helped us understand the internal environment of the consulting firms, how they relate to the working environment and the way in which they deliver their services. Even though a week is too short a time to gain a deeper knowledge of the situation in a country, we believe that our trip to Moscow developed our understanding of the Russian business environment.

2.3.2.1 Interviews

Our study is mainly based on data collected from our field study in Russia, which makes it have a qualitative character. Our major sources were personal face-to-face interviews. In total, we conducted eleven interviews in Moscow, one in Amsterdam and two in Gothenburg. In addition, we did one telephone interview with a Swedish consultant in Stockholm, with experience from working in Russia.

To collect the primary data we mainly used semi-structured interviews, which is in between highly structured and unstructured interviews. We also handed out a highly structured survey to the persons we met, concerning the cultural dimensions referred to in the theory chapter. The population might not be representative as we gave out the survey to randomly selected individuals that we met in the international consulting firms. However, we used this material in order to indicate tendencies of the development in the Russian market. Furthermore, the questions in this survey concerned issues like management styles. We made clear for the respondents that the questions were regarding the general development in the market, and not within the actual international consulting firm, in order to avoid misinterpretations.

Before we did the interviews we carefully considered the questions and made sure that they were in line with the purpose and within the theoretical framework of our study. The interviews were based on open qualitative questions in order to get extensive answers and to avoid leading questions. The interviews in Russia were conducted with three Partners, three Managers and five Consultants in the different international consulting firms. This meant that we got different perspectives from various levels in the firms. However, we did not meet personnel at all levels in all firms. This does not have any implication for the result of this study, since is not of major interest for our conclusions from which of the consulting firms the findings come. More important for the study are the findings as such, no matter what consulting firm they originate from.

We tried to create a closeness to the respondents which is very important in a qualitative study and especially when discussing such an abstract issue as culture. We followed a general outline for our questions that were the same for all interviews. To get in-depth answers, we asked questions around the core problem we sought.

During the interviews we used a tape recorder in order to grasp all the details and be able to collect much material. Furthermore, we were in a better position to concentrate on the answers from the interviewee and did not miss any important information that otherwise could be easily lost in an interview. Some argue that tape-recorders disturb the interview situation, and that a disadvantage could be that the interviewees do not reveal the whole truth. None of the interviewees disapproved of using a tape recorder and for us the experience was only positive. This made the discussion run more freely and instead of concentrating on writing down the answers we could come up with follow-up questions of importance for our study.

We also included two specialists in the study as a way to get more in-depth understanding of the topic. These persons are working at different cross-cultural consulting firms. Although, these firms are not operating in the traditional areas of consulting such as auditing, finance and management, they are specialists in delivering cultural support to

companies, which made them very interesting for our study. Considering the cultural theories and its impact on the business environment, we had an interview with one of the authors of the main source of theory in the cultural area in our study. As this respondent has been studying the effects of culture on management for many years and has a thorough understanding in the area, he contributed to our knowledge in the field and gave us new ideas and insights in the cross-cultural area.

Problems that we met in the initial stage of our study, were difficulties to reach the right persons in the international consulting firms and in addition to arrange meetings with the representatives from these firms. As people in the consulting business in general are very busy, they were hard to get hold of. We were aware that consultants' time is money, and for us that meant that we had to really make them interested in our study, and make them share their valuable time with us. As mentioned, this was very difficult, especially to deal with over the telephone. "Sure, call us when you get to Moscow, and we will arrange for someone to give you an interview..." was a common answer we received. Probably, we could have followed this advice, but we wanted to at least have some interviews arranged in advance. However, thanks to our own persistence with hours on the phone, we succeeded in convincing a number of persons to meet us. Only one setback occurred with the cancellation of an interview at very short notice. But we were lucky and got the opportunity to meet another person than the first intended.

2.3.3 Selection process

We chose Russia as the focus in our study because of our big interest in the country and in the Russian culture. Since we wanted to study how international consulting firms are taking culture into regard in the context of providing technical consulting services, we found Russia of high interest considering the country's historical, economic and social background. Furthermore this background differs to such great extent from the background we have in the West. Hence, it is this background that has a big impact on the business environment and the way businesses are undertaken in Russia. We chose to visit Moscow for a

field study, because most of the international consulting firms are represented in this city.

We treat Western market economies as one entity since the development of the market economy here has been shaped simultaneously and thus created similar business environments. A comparison is possible since Russian business environments to such an extent differ from the Western market economy environment.

The selection of firms to study were primarily the Big Five, which are Arthur Andersen, Ernst & Young, KPMG, Deloitte & Touche Tohmatsu, and PriceWaterhouseCoopers, since they are the ones dominating the Russian market. We got interviews with persons working in all of these firms except for PriceWaterhouseCoopers. However, this does not affect the result of our study since we believe that we had representative firms for our study. We did though get an interview with a consultant at Öhrlings PriceWaterhouseCoopers in Gothenburg, Sweden, with considerable experience from Russia. We furthermore included Arthur D Little and McKinsey in the study, since they have been represented on the Russian market for a long period of time and have good knowledge of it.

Our intention was to meet persons from all levels within each of the consulting firms, from Partner to Consultant. This was not possible though due to their limited time and resources. We did though meet persons from all levels, but representing different firms. We also made the interviews with both Russian and expatriates, which gave even more different angles to our study. Furthermore, we interviewed both women and men, which is of importance for our study since their ways of relating to cultural aspects generally differ.

2.4 Scientific evaluation

In all studies there is a risk of errors. When conducting research, it is always crucial to test the quality of the work, which can be done through the four tests construct validity, internal validity, external

validity and reliability.⁹ We will evaluate the scientific standard of our thesis and also give some source criticism.

2.4.1 Validity

2.4.1.1 Internal validity

Internal validity relates to how well the research findings match reality. This concerns whether the researcher is measuring what they think they are measuring, and whether this measurement captures the reality in a correct way. Internal validity is the inner logic of the research, meaning that what is presented in the research should be derived from real life. Interpretations of reality can be collected from interviews although this is subjective since it will be conducted from the researcher's point of view. In order to overcome this, and for the work to attain validity, we have collected our results from both primary and secondary data.

The information collected from the interviews in this study correlates with the parts of the theory that have been investigated. The different theories used have all been tried in earlier research, thus assuring the relevance of the basic principles. Facts about Russian culture and its influence on Russian business environment have been derived from secondary as well as primary data. One of our secondary sources is the theory used in the thesis. Most of the theories are written in the West by Western authors that therefore are developed from the perspective of Westerners. This could give the study a Western interpretation of the situation. However, the base for our cultural theories, includes Russian traits in the development and usage of theories. Therefore, when using the theories in a Russian cultural context, we believe that the validity of our theories is increased.

Internal validity could be extended to also include the problem of making inferences in a case study.¹⁰ A case study involves inferences every time an event cannot be directly observed, therefore the

⁹ Yin, p.33, 1994

¹⁰ Yin , p. 35, 1994

researcher will make conclusions that are based on previous observations and not what is actually studied. To avoid making the wrong inferences we have used many sources of secondary data and carefully considered different angles and opinions before we have made any inferences. Concerning the survey we did on some of the respondents, we have not made any inferences from these results, but instead use them in order to indicate tendencies in the market. It is though hard to identify the specific tactics for achieving this internal validity, but we are aware of the underlying factors and thus eliminate the risk of making the wrong inferences from our case study.

2.4.1.2 External validity

External validity deals with the problem of knowing if the findings of a study can be generalised and applicable beyond the scope of the immediate case study.¹¹ The problem of making generalisations is evident especially for single case studies. Since we are doing a multiple case study, we can enhance the ability of generalising the results of our findings. Because of this, we believe that the theory and conclusions in our study can be used also in other companies than the ones studied. Since awareness of the cultural traits' effect on the business environment is important for all enterprises active in or with an environment differing from their own, we believe that our study can be applicable to other cases.

2.4.2 Reliability

Reliability occurs if a later researcher does exactly the same study and follow the same procedures later and then comes up with the same conclusion as the previous study. The main purpose of reliability is to minimise errors and the biases within the study. Reliability could be hard to achieve in social sciences because human nature is dynamic and always changing. It is therefore argued that this does not fit qualitative research, as it could never be achieved without the influence of human behaviour. Instead the issue should be whether the result is consistent with the data collected. This means that the results derived from the collected data should make sense to outsiders, rather

¹¹ Yin, p. 35, 1994

than lead to exact the same result when done by another investigator. Then it is necessary to explain the theory behind the study and how data have been collected and later concluded.¹²

Depending on the researcher, the result could vary in quality and reliability. Even though our research is of qualitative nature, we have tried to achieve the highest reliability for our study. We have given a thorough description of our theory and have used multiple sources of data in order to increase the reliability. During the empirical study we met persons at different positions and from various countries and different companies, which helped us to develop a deeper understanding for the situation and their work. During the interviews we always tried to be neutral and not biased. Furthermore, we have tape-recorded all interviews to ensure that no important facts were lost. All interviews were then processed within a short time period. One thing that might affect the reliability of our study is that Russia is in a stage of transition and changing continuously. If our study had been conducted in half a year it would most likely turn out with a slightly different result.

2.5 Conclusions of the chapter

In this chapter we have outlined the research strategy that we have pursued when making our study which was an explorative - descriptive research strategy. By further conducting a multiple case study, we believe that we can get a more complex picture of the existing situation in the Russian business environment. From our multiple case study, we can furthermore find new perspectives and different angles of the issue, from which general conclusions will be drawn. By conducting interviews with representatives from the different international consulting firms as well as studying secondary sources, we aim to fulfil the purpose of this study.

¹² Merriam, 1998

3 THEORETICAL FRAMEWORK

This chapter provides the broad theoretical framework for understanding the business environment in a country. It focuses on the institutional approach that is, how the institutional setting defines the business environment by outthinking rule systems governing the behaviour of individuals and organisations in specific countries. Among the institutional rule systems, those provided by the country culture have a decisive role in defining the specifics of the business environment. Country culture and its various dimensions are thus discussed in this chapter as well as various business implications stemming from the nature of the dimensions. All this is of crucial importance since it to such an extent defines the cultural traits of management systems in specific countries that is, those systems which govern how managers behave and how activities are undertaken in enterprises in the context of specific country cultural setting.

3.1 Macroperspective

3.1.1 The institutional network theory

In order to analyse the business environment in Russia on a macro-level, we will use the Institutional Network Theory. This theory is developed by Professor Hans Jansson to understand the characteristics of a country business environment that is the institutional setting, which surrounds an enterprise in a specific country. An institutional approach provides the enterprise with the advantage to better penetrate the environment in depth and get an understanding of how this influences the enterprise.¹³ The success and profitability of an enterprise, both in terms of establishment and operations, is dependent on its capability to adapt to the institutions and behavioural rule systems in the country. To successfully interact with actors in this business environment, the institutional set-up has to be understood thoroughly by the enterprise.

¹³ Janson , 2000

The environment of an enterprise consists of a complex mix of economic and non-economic actors and factors, including government authorities, legal frameworks as well as intangible factors such as culture, values and business mores. This mix of factors together forms the institutional set-up of an enterprise, influencing all actions taken by the enterprise in the country.

Institutions are rule systems or routines that govern the behaviour and action of individuals and organisations. By using an institutional approach, institutional concepts such as the behaviour, transfer rules, norms, and ways of thinking can be comprehended and clarified, thus enhancing the ability of an enterprise to interact successfully with the institutional traits of a country. The concepts characterising institutions describe the specific way in which humans organise and behave in a society. The rule-like nature of institutions facilitates the relations among individuals, providing a predictable behavioural pattern in the society.

Institutions provide rules, which can be formal or informal in their nature. The formal rules can be laws and regulations, constitutions and property rights. The informal rules are harder to identify and are often hidden within people's behaviour, but are still of high importance. Such rules can be traditions, values, customs, taboos and specific codes of conduct. The institutional characters have developed through history and have become behavioural regularities. These characters and ways of behaving exist sometimes unconsciously among people, reaching specific ways without even reflecting on why they do so. For a foreign enterprise facing a new country institutional setting it will be of utmost importance to try to comprehend both the informal and, particularly difficult, the informal rule systems dominating the new business environment.

Professor Jansson makes a distinction between organisational fields and societal sectors that form the business environment of a multinational corporation, MNC. The enterprise is thus surrounded by a host of institutions, providing rule systems. Institutions composed of organisational fields directly impact the enterprise and the other way

around as a two-way influence. Societal institutions on the other hand provide a one-way influence on the MNC. The enterprise has to define its strategies so that its own institutional set-up (rule system) corresponds with that of the prevailing country business environment.

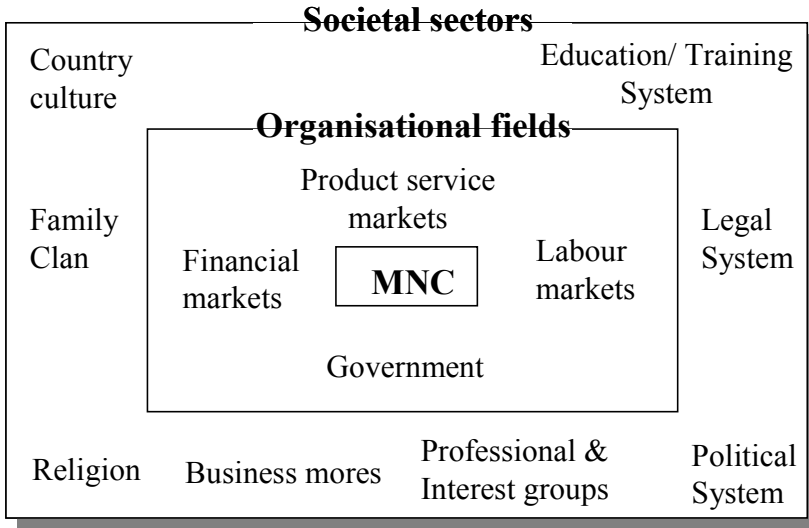


Figure 3.1 Networks Institution Model

Source: Prof. Jansson, H, 2000

It is important to note that the institutions continuously influence and are related to each other, although to varying extents. This interplay between the different actors in the institutional setting creates a network of linkages between varying institutions, within which the MNC has to operate successfully.

As seen in this thesis, country culture has a very complex and decisive roll in defining most institutions of a society. Culture runs across and within the society and its institutions and culture can therefore not be seen as being an institution separate from other institutions. Country culture is behind all country institutions, affecting their development in the past as well as in the present time and in the future. Thus, in this study, country culture will be focused on as providing the most

important rule systems that govern behaviour of individuals and organisations. This is illustrated in the figure below.

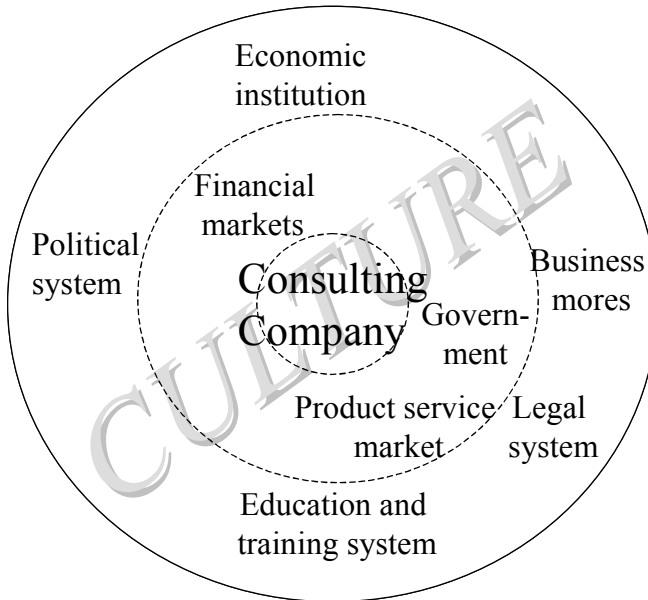


Figure 3.2 Culture behind all other institution
Source: Own model

3.1.2 Aspects of institutions

There are three main aspects of external rules that an enterprise needs to incorporate and adapt to, in order to be successful; values, enforcement mechanisms and thought styles. These aspects can be described and understood by explaining structures of institutions.

3.1.2.1 Cognitive structures

Cognitive structures concern how people think in specific situations and how their behaviour is formed from this way of thinking. There are certain “rules of the game” within an enterprise, in a social group, a country or any form of groups. This self-created regular organisation or group behaviour is based on people’s frames of reference and

patterns of thinking¹⁴. Furthermore, the perception of the current situation differs between individuals and groups, as they have different thought styles and are surrounded by different institutional environments. Especially between different countries, this difference can be evident and an area of conflict. One person can perceive the situation as chaotic, while another sees the situation as natural and logical, based on the institutional environment. This perception comes from the individuals' understanding, knowledge and experience of their surroundings. This is especially relevant for the purpose of this study, as the contrast between the institutional setting of a western MNC and the institutional environment facing it when entering Russia is huge. Therefore, it is of crucial importance to have relevant knowledge of institutional factors when undertaking successful activities in Russia. It is crucial to develop a sensitivity to assess the business environment and to be able to relate the conditions of the own enterprise to the present business environment.

In this situation of confronting cognitive structures, empirical studies have shown that people tend to seek for information that confirms a certain line of reasoning, rather than information that is against it. In addition people tend to make the situation more simplified by avoiding considerations of what is remote in time and space, these simplifications are based on the social norms, individual aspirations, perceptions and experiences.

3.1.2.2 Normative structures

Institutional behaviour is also characterised by the values and roles that people possess. Also organisational behaviour is influenced by these normative structures.

“Values are the root of cultures and behaviour, for example the importance of business values such as hard work, honesty, self-discipline, financial success, working towards common goals, personal achievement, creativity, and respect for learning”¹⁵.

¹⁴ Jansson, p. 16, 2000

¹⁵ Jansson, 2000

Norms are guiding principles for how to act and how things should be constituted or organised. Values and norms are closely connected, and therefore hard to separate, and together they constitute rules that form the way people are expected to behave in specific situations.

3.1.2.3 *Regulative structures*

Forms of enforcement and incentives also influence people's behaviour. The formal and informal regulative structure derives the behaviour with conformity and enforcement. In this view the institutions also create a sort of social control in the way that it can to some extent predict the future developments in the environment.

3.1.3 Country culture as the main institution

“The customs, beliefs, art and all other products of human thought made by a particular group of people at a particular time”

Richard D. Lewis

“The collective programming of mind that distinguishes the members of a human group from another”

Geert Hofstede

“The total of the inherited ideas, beliefs, and knowledge, which constitute the shared bases of social action”

Collins English Dictionary

There are several definitions of country culture and what components that should be concluded within this. It has been at the heart of sociological, historical and anthropological debates about the relationship between individual action and the nature of society¹⁶. The most commonly used definition of culture in social science is from 1871 by E.B. Tylor. He argues that culture is “that complex whole which includes knowledge, belief, art, morals, law custom and any other capabilities and habits by man as a member of society”. Culture

¹⁶ Neal, M, 1998

is experienced or learned at an early age and is strengthened respectively deepened through social influences, such as language, religion, values and attitudes, technology and social institutions.¹⁷ Furthermore, culture belongs to a whole group and not only to individuals. Culture gives people an identity at the same time as it forms their behaviour. These learned behaviours are then transferred from one generation to another. In order to understand an other's culture, one has to understand and be aware of one's own culture.¹⁸ However, it important to bear in mind that one cannot generalise group behaviour just through studying a single individual person because people will still have different personalities even though belonging to the same culture.

According to Trompenaars, culture is the shared ways groups of people understand and interpret the world. He tries to describe the concept of culture as different layers just like an onion.¹⁹ The *outer layer* of the onion is the explicit culture, which is usually an individual's first experience with a new culture. This is an observable symbol of a deeper level of culture and could be the visible reality of language, food, buildings, houses and markets. The *middle layer* of the onion contains norms and values. Norms are the mutual sense an individual group has of what is "right" and "wrong". Norms can both be on a formal level, such as written laws, or on an informal, such as social control. Values are closely related to the ideals shared by a group and determine the definition of "good and bad". While the norms, consciously or subconsciously, give the feeling of "this is how I *should* behave", values give the feeling of "this is how I aspire or desire to behave". A culture is relatively stable when the norms reflect the values of the group. When this is not the case, there could be instability. This is the case in Russia, where the norms of communism failed to match the values of society that makes disintegration a result. It takes shared meanings of norms and values that are stable for a group's cultural tradition to develop and be elaborated. The *core* of the model is the assumptions about existence and survival. Each culture

¹⁷ Czinkota, M.R, Ronkainen, I.A, 1998

¹⁸ Trompenaars, F, 1993

¹⁹ Trompenaars, F, p.22, 1993

has organised itself to find the ways to deal most effectively with the environment, given the available resources. One has to look at the core of the human existence in order to show the differences in values between cultures. Because people have developed within different geographical settings, they also form different sets of logical assumptions. The best way of finding out if something is a basic assumption is when a question provokes confusion or irritation. This is because when you question basic assumptions you are asking questions that never been asked before.

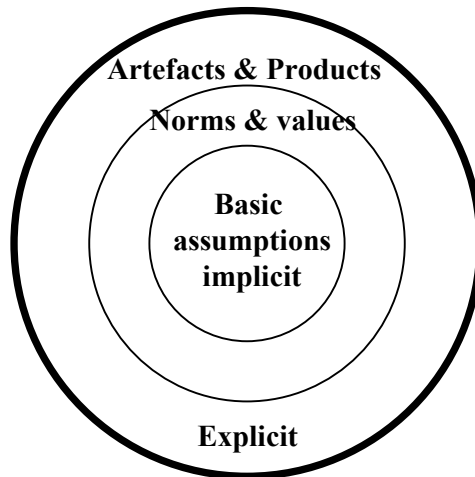


Figure3.3 The Layers of culture

Source: Trompenaars, F, 1993, p 23

3.1.3.1 Different types of culture, national and corporate

Culture can be found at different levels. At the highest macro level is the culture of a national or regional society, which tries to explain the characteristics of the people at a country level. This includes geography, history, political and economic forces, religion and language. The way in which attitudes are expressed within a specific organisation is described on a micro level as a corporate or organisational culture.²⁰ People within an organisation share certain

²⁰ Trompenaars, F, p.7, 1993

professional and ethical orientations and this refers to the professional culture in an organisation. Our focus in this study will be on national country culture and how this influences the business environment within a country, and thus all actors within it. With regard to corporate culture, we will only study the relation between corporate culture and national country culture and the special aspects in corporate culture that are determined and directed by and reflect the traits of national country culture.

3.2 Microperspective

3.2.1 Hofstede's cultural dimensions

Hofstede defines five cultural dimensions, however we will only use two of these, namely Power distance and Uncertainty avoidance, since we believe that these are the ones of relevance for our study. He focuses on cultural differences that might have an impact on business parties belonging to different cultures. Hofstede's research indicates which orientation most members of a culture group are likely to adopt in routine situations. It maps out tendencies and does not make hard-and-fast predictions that will apply in all cases.

3.2.1.1 Power distance

Power distance describes the relationship between the manager and the subordinates within a company. A typical power distance culture organises the people in hierarchical systems. The power is centralised and employees expect to be told what to do. The subordinates should respect the authority, which has high status and is the one coming with initiatives and making decisions.

In a culture with less power distance, the manager and the subordinates are more equal. The organisations in low power distance societies are normally decentralised and the employees have more responsibility and are supposed to take own decisions in many cases. The individuals value independence and are not afraid of disagreeing with the supervisor.

Recognising differences between high and low power distance

Low	High
Decentralisation and tendency towards consensus in decision making	Central decision making
Informal style in work parties	Formal business practices
No large hierarchies	Very hierarchical structure
High willingness in sharing information	Formal business practices

Table 3.1 High and low power distance
Source: Hofstede, 1980

3.2.1.2 Uncertainty avoidance

Uncertainty avoidance deals with whether people in a society are comfortable or not facing uncertain and unknown situations. In a high uncertainty avoidance culture, attempts are made in order to minimise and control uncertainty. People seek situations that are predictable and are dependent on job security and regulations. In culture more accepted to uncertainty, there is a lower level of anxiety and people are more willing to take risks. People are open towards changes and do not see this as something threatening or dangerous.²¹

Recognising the differences between high and low uncertainty avoidance

Low	High
Risk taking is encouraged	Risk taking is discouraged
Willingness to meet challenges	Following rules is awarded
Importance of formal contracts	Importance of networks
Responsible	Avoid taking responsibility, tendency to blame others

Table 3.2 High and low uncertainty avoidance
Source: Hofstede, 1980

²¹ Hofstede, G, 1995

3.2.2 Trompenaars' cultural dimensions

Trompenaars has under a 14-year period built up his theories on Hofstede's and Parsons' earlier research and modified them. We will focus on Trompenaars in this study, as his models overlap the others. Furthermore, we find Trompenaars theories most relevant for us as he has, in contrast to the other two, included Russia in his cultural studies. In addition, Bangert and Pirzada bring up critiques of Hofstede's research which we believe are of importance to bare in mind²²:

- The value dimensions articulated are not exhaustive
- All data were drawn from one enterprise and results may have been influenced by IBM's corporate culture.
- Data were gathered from 1967 to 1973 and major cultural changes have occurred since then and continue to do so
- The dimensions are based on country means rather than individual means, and there might be individual differences in culture that are lost by averaging scores within a country
- Specific items for deriving cultural-level dimensions may not have the same meaning in each of the cultures

Trompenaars has administered research questionnaires to over 15 000 managers from many countries and proposed a framework based on at least 500 responses from each of the 40 countries. To draw a general conclusion from this material could be questioned. It can be argued that the answers from each country need to be qualitatively analysed instead of compiling all answers into an index. However, Trompenaars means that his empirical results are only an illustration of what he tries to say. He stresses that the cultural differences have a major impact on how to manage an enterprise and that they are often underestimated in business situations. There are no global solutions for how to organise a firm and the need for standardisation in organisational design and procedures must be balanced with adaptations to local markets concerning the market, legislation, socio-political system and cultural system. Trompenaars dimensions are useful tools for explaining business behaviour and preferences for individuals from various

²² Bangert and Pirzada, 1992

nations. The first four cover the ways in which human beings deal with each other and the other one brings up the attitudes to time. We are only taking up the first five dimensions, while we find these the most important from a consulting firm's perspective. The headlines of the cultural dimensions are:

1. Universalism versus Particularism
2. Individualism versus Collectivism
3. Diffuse versus Specific
4. Achievement versus Ascription
5. Time

3.2.2.1 Relationships and rules (universalism versus particularism)

Universalist, or rule-based, behaviour tends to be abstract. It implies equality in the sense that all persons falling under the specific rule should be treated the same way and situations are ordered by categories. Furthermore, rule based conduct has a tendency to resist exceptions that might weaken a rule, and the system could collapse once you start make exceptions for illegal conduct. Particularist focuses on the exceptional nature of present circumstances. It emphasis human friendship and people are more seen as friends, brothers, children or persons of unique importance to the individual, and not only as citizens. Personal relationships are very important and therefore stand above all rules. A person's relationship to his fellow beings is highly important and he or she will protect, sustain or discount these persons no matter what the rules say. There could occur problems between people from these different cultures. A universalist would not trust a particularist because "they will always help their friends". A particularist, on the other hand, would not trust an universalist because "they would not even help a friend".

Recognising the differences between universalism and particularism

Universalist	Particularist
Focus is more on rules than relationships	Focus is more on relationships than on rules
Legal contracts are readily drawn up	Legal contracts are readily modified
A trustworthy person is the one who honours their word or contract	A trustworthy person is the one who honours changing mutualities
There is only one truth or reality, that which has been agreed to	There are several perspectives on reality relative to each participant
A deal is a deal	Relationships evolve

Table 3.3 Universalism and particularism

Source: Trompenaars, F, 1993, p 45

Business implications

- The contract
- Timing
- Role of head office
- Job evaluation

The contract

In universalist cultures weighty contracts are a way of life and serve to record an agreement on principle as well as codify what the respective parties have promised to do. In particularist countries there is another reason why people tend to keep their promises. They have a personal relationship with their colleague, whom they hold in particular regard. The contract is seen as definitive by the universalist, but only as a rough guideline or approximation by the particularist. The contract could easily be amended for a particularist in order to preserve the good atmosphere of a relationship. Another feature of particularist societies is to make use of connections in e.g. the government in order to achieve objectives by giving insider information to keep a relationship. This would be morally wrong for a universalist, where the contract is sacred. However, a strict contract could be seen as a

message for the particularist that one party would cheat the other. Those who feel they are not trusted might automatically behave in an untrustworthy way. Alternatively they may terminate their relationship with a universalist business partner because that partner's precautions offend them.

Timing

According to Trompenaars, to establish a contractual agreement in a particularistic country could take up to twice the normal time in a Western country because one has to forge what has to be a closer relationship. It is important to create a sound and trustworthy personal relationship basis. This process takes a considerable amount of time, but for particularists, the time taken to grow close to your partner is saved in the avoidance of trouble in the future. For them socialising is an important part of business. However, this long period for creating a negotiation could be frustrating for an universalist.

The role of the head office

In universalist countries, the head office tends to hold the keys to global marketing, global production and global human-resource management. Within particularist cultures the guidelines of the head office normally fail to shape local ways of operating. Different groups develop their own local standards, which become the basis of their solidarity and resistance to centralisation. Stratified boundaries are created by the national subsidiary between itself and head office and differentiation is deliberately sought.

Generally, the more particularist the greater the commitment between employer and employee. Particularist groups seek relationships, especially to the leader. The employer in these cultures strives to provide satisfaction to employees by security, money, social standing, goodwill and socio-emotional support. Job turnover is low and commitments to the labour force long-term. However, the local chief wishes all this to redound to his or her own credit, not that of the foreign owner.

Thus, what frequently occurs is that foreign-based particularist subsidiaries of universalist enterprises will pretend to comply with head office directives, which leads to a kind of ritualistic “corporate rain dance”.²³ They will go through the activities as long as they are under inspection, but they do not believe that rain will result. Therefore, understanding the differences and implementing a common culture is of utmost importance in order to make everybody work towards the same goal.

Job evaluation

In the universal culture all jobs should be described, the employees should have their qualifications compared with this description and their performance should be evaluated against what the contract says they should perform. This is normally a basis for promotion and reward. In particularist cultures this system is not as common, according to Trompenaars.

3.2.2.2 The group and the individual (individualism versus collectivism)

This concerns if a person regards him or herself as an individual or primarily as part of a group. According to Trompenaars, individualism encourages individual freedom and responsibility and is more referred to as a characteristic of modern societies, whilst collectivism encourages individuals to work in the interest of the group and is referred to more traditional societies. In a highly individualistic society, focus is on the individuals, who contribute to the society if they want to. In a highly collectivist society, it is more important to consider the group first as many individuals share it. The particular group with which individuals choose to identify could be their trade union, family, nation, corporation, religion or profession.

International management is affected by these two different preferences and especially critical areas are negotiations, decision making and motivation. Promotion for performance differ between the two where the individualists prefer to be individually distinguished

²³ Trompenaars, F, p. 41, 1993

within the group and that the contribution of any one member to a common task is easily distinguished and that no problems would arise if they are singled out for praise. None of this is true for collectivism. Motivations also differ between the two, and in more collectivistic cultures, people work for the positive regard and support of their colleagues. In individualistic countries, organisations have been formed in order to serve individual owners, employees and customers and members of the organisation enter relationships because it is in their own interest. In collectivist cultures, organisations are viewed more as a social context all members share and give them meaning and purpose. Organisations are often linked to a large family, clan or community that both develops and feeds its members.

Recognising the differences between individualism and collectivism

Individualism	Collectivism
More frequent use of “I” form	More frequent use of “we” form
Decisions made on the spot by representatives	Decisions referred back by delegate to organisation
People ideally achieve alone and assume personal responsibility	People ideally achieve in groups which assume joint responsibility
Vacations taken in pairs, even alone	Vacations in organised groups or with extended family

Table 3.4 Individualism and collectivism

Source: Trompenaars, F, 1993, p 61

Business implications

- Interpreters
- Decision-making
- Motivation

Interpreters

In Anglo-Saxon negotiations, the translator is supposed to be neutral and objective. However, in more collectivistic cultures, the translator will usually serve the national group, engaging them in lengthy discussions and attempting to smooth out misunderstandings arising

from culture as well as language. Very often the translator may even be the top negotiator and function as an interpreter rather than purely a translator.

Decision-making

Collectivist decision-making typically takes much longer. Voting down the dissenters as often happens in Western democracies, is unacceptable. Instead, there will usually be detailed consultations with all those concerned and, because of pressures to reach the goals together, consensus will usually be achieved.

The decision-making process in individualistic countries is usually very short, with a single person making decisive decisions in a few seconds. While this may result in quicker deliberations, it will often be discovered months later that the organisation has conspired to defeat decisions managers never liked or agreed to. Saving time in decision-making is often followed by delays due to implementation problems. The individualist society will frequently ask for a vote to get everyone to go in the same direction. The drawback to this is that within a short time they are likely to have reverted to their original orientation. In the collectivistic society, the final result takes longer to achieve but will usually be much more stable.

Motivation

In individualistic cultures motivation factors could be salary rewards and promotion for high performance. The individualists prefer to be individually distinguished within the group and contribution of any one member to a common task is easily distinguishable. In more collectivistic cultures people work for the positive support of their colleagues, with whom they will share any reward, rather than taken as extra money for themselves. In individualistic countries, organisations have been formed in order to serve individual owners, employees and customers and members of the organisation enter relationships because it is in their own personal interest to do so. In collectivistic cultures, organisations are viewed more as a large family, clan or community that both develop and feed its members.

3.2.2.3 How far we get involved (Specific versus diffuse)

Closely related to whether a country is affective or neutral is to what degree people let other people into their lives and how important it is to keep a certain cooperation or contact. Specific cultures tend to have a larger public area and a smaller private area. They separate their private life and guard it closely. In more diffuse countries, the private space is larger and the public area is smaller and more carefully guarded. Diffuse cultures tend to appear cool initially but once one enters the closely guarded public space, the private space is much more accessible than in specific cultures. Specific and diffuse cultures are sometimes called *low* and *high context cultures*. Context has to do with how much you have to know before effective communication can occur and how much shared knowledge is taken for granted by those in conversation with each other. Cultures with high context believe that strangers must be “filled in” before business can be properly discussed. Cultures with low context on the other hand, believe that each stranger should share in rule making, and the fewer initial structures there are the better. Low context cultures tend to be adaptable and flexible whilst high context cultures are rich and subtle, but might never be comfortable for foreigners who are not fully assimilated.

Furthermore, doing business with a culture more diffuse than your own appears very time consuming. In specific cultures, business can be done in a “mental subdivision” called “work”, which is kept apart from the rest of life. In diffuse cultures, on the other hand, everything is interconnected. A business partner from a diffuse culture may want to know about your personal life, friends, family and where you went to school. This is a way to form and build good relationship.

Recognising the differences between specific and diffuse

Specificity	Diffuseness
Direct, to the point, purposeful in relating	Indirect, circuitous, seemingly “aimless” forms of relating
Precise, blunt, definitive and transparent	Evasive, tactful, ambiguous, even opaque
Principles and consistent moral stands of the person being addressed	Highly situational morality depending upon the person and context encountered

Table 3.5 Specific and diffuse

Source: Trompenaars, F, 1993, p 89-90

Business implications

- Performance evaluation

Performance evaluation

For a diffuse culture, business can never really be excluded from the private life. It will always be a part of the relationship building context. For a specific culture, on the other hand, business should not be mixed with pleasure and private life.

Specific countries choose management-by-objectives and pay-for-performance as favourite devices to motivate employees. Pay-for-performance is not very popular in diffuse cultures because it dissolves relationships. To claim all rewards for yourself denies the importance of relationships, including feelings of affection and respect for superiors with whom you have diffuse contacts and shared private life spaces. In diffuse cultures it is the relationship that increases or reduces output, not the other way around. Objectives or specifics may be out of date by the time evaluation comes around. One may not have performed as promised, yet done something more valuable in other circumstances. Only strong and lasting relationships can handle unexpected changes of this kind.

Diffuse cultures tend to have lower employee turnover and mobility because of the importance of “loyalty” and the large quantity of human

bonds. They tend not to “headhunt” or lure away employees from other enterprises with high salaries. Moreover, takeovers are rarer in diffuse cultures because of the disruption caused to relationships and because shareholders have longer-term relationships and cross-holdings in each other’s enterprises and are less motivated by the price of shares.

3.2.2.4 How we accord status (achievement versus ascription)

In some societies people are accorded status on the basis of their achievements, whilst other societies ascribe status to them by virtue of age, class, gender, education etc. The first kind of status is called achieved status and refers to doing and the second ascribed status refers to being, where you “are” status. An ascribed status is as natural as your birth and requires no rational justification. Achievement orientation is regarded as part of modernisation and the key to economic and business success. According to this view societies with ascribe status would be economically backward, because the reasons they have for conferring status is not in the line of facilitating commercial success. However, ascription could have a good effect on performance because it would be a self fulfilling prophecy, where people are trying to live up to the status ascribed to them and deserve it. Hence, this could lead to higher performance and achieving and ascribing status could even be interwoven.

Achievement oriented organisations justify their hierarchies by claiming that senior persons have achieved more for the organisation, through their authority justified by skill and knowledge. Ascription oriented organisations justify their hierarchies by “power-to-get-things-done”. This may consist of power over people and being coercive or power through people and being participative.

Recognising the differences between achievement and ascriptive

Achievement-oriented	Ascription-oriented
Use of titles only when relevant to the competence you bring to the task	Extensive use of titles, especially when these clarify your status in the organisation
Respect for superior in hierarchy is based on how effectively his or her job is performed and how adequate their knowledge	Respect for superior in hierarchy is seen as a measure of your commitment to the organisation and its mission
Most senior managers are of varying age and gender and have shown proficiency in specific jobs	Most senior managers are male, middle-aged and qualified by their background

Table 3.6 Achievement and ascriptive
Source: Trompenaars, F, 1993, p 105

Business implications

- Negotiations
- Status

Negotiations

A negotiation situation between these two cultures could result in problems. It could be irritating for achieving cultures when the ascriptive team brings an incompetent senior person to sit in the background and to whom they have to submit any proposals or changes. It is equally annoying for ascriptive people to negotiate with achievement cultures, where sometimes young people and women use their knowledge as ammunition. The ascriptive culture could regard this as nonsense coming from inexperienced people with no status or authority.

Achievement cultures must understand that some ascriptive cultures spend very heavily on training and in-house education to ensure that older people are actually wiser for the years they have spent in the corporation and for the sheer number of subordinates briefing them.

Older people are held to be important so that they will be nourished and sustained by another's respect. A stranger is expected to facilitate this scheme, not challenge it.

Status

Status is important in ascription oriented cultures, where it is carefully followed. Status is a part of the hierarchical system so if a manager is downgraded, all the subordinates will be downgraded with him. Titles are much more important here than in an achievement oriented culture.

3.2.2.5 Attitudes to time (sequential versus synchronous time)

The way in which different cultures look at time differs. In some societies what somebody has achieved in the past is not that important. It is more important to know what plan they have developed for the future. In other societies you can make more of an impression with your past accomplishments than those of today. In certain cultures time is perceived as passing in a straight line, a sequence of disparate events. Other cultures think of time more as moving in a circle, the past and present together with future possibilities. This makes considerable differences to planning, strategy, investment and views on home-growing your talent, as opposed to buying it in.

Every culture has developed its own response to time. The time orientation dimension has two aspects: the relative importance cultures give to the past, present, and future, and their approach to structuring time. Time can be structured in two ways. In one approach time moves forward, second by second, minute by minute, hour by hour in a straight line. This is called *sequentialism*. In another approach time moves round in cycles: of minutes, hours, days and years. This is called this *synchronism*.

People structuring time sequentially tend to do one thing at a time. They view time as a narrow line of distinct, consecutive segments. Sequential people view time as tangible and divisible. They strongly prefer planning and keeping to plans once they have been made. Time commitments are taken seriously. It is very important to follow the schedule and be aware of time. People structuring time synchronically

usually do several things at a time. To them, time is a wide ribbon, allowing many things to take place simultaneously. Time is flexible and intangible. Time commitments are desirable rather than absolute, and plans are easily changed. Synchronic people especially value the satisfactory completion of interactions with others.

Past-oriented culture

If a culture is predominantly oriented towards the past, the future is seen as a repetition of past experiences. Respect for ancestors and collective historical experiences are characteristic of a past-oriented culture.

Present-oriented cultures

A predominantly present-oriented culture will not attach much value to common past experiences nor to future prospects. Day-by-day experiences tend to direct people's lives.

Future-oriented cultures

In a future-oriented culture most human activities are directed toward future prospects. Generally, the past is not considered to be vitally significant to a future state of affairs. Planning constitutes a major activity in future-oriented cultures.

3.3 Conclusions of the chapter

In this chapter we have described culture as a factor decisive for characteristics in the business environment, which thus is the focus all through this study. From the macroperspective, we consider culture as an institution, which cannot be separated from other institutions since it runs across and within them. On a micro perspective of country culture we describe the cultural dimensions and their business implications which are of particular interest for our study, as we will apply these to the consulting firm later on in this thesis. We found that there is a strong connection between culture and business environment, which should not be treated separately, but rather simultaneously.

4 AN ANALYSIS OF RUSSIA IN A HISTORICAL CONTEXT

The purpose of this chapter is to characterise and understand the Russian country culture, in a historic context and according to the set of cultural dimensions defined by Trompenaars and Hofstede. This presentation is then followed by an analysis of how the historic cultural setting in Russia has defined the specific characteristics of the Russian management system.

In the first part of this chapter we will describe how historical influences in traditional Russian society have shaped these traits, and then discuss how these traits can be applied in business implications.

4.1 History

Russia has an impressive history of turbulence with wars, suffering, sacrifice and revolutions that have had an immense effect on the country and its people. As a result of a mix between the Tsar rule, the Russian Orthodox Church and the Communist regime, the Russian culture has many dimensions.

The Russian cultural characteristics have developed through the years; and values, norms and attitudes show clear evidence of the many years of socialist ideology. Management practices have developed as a reflection of the traditional cultural attitudes of Russian people. Today Russia is in the process of transition from a planned economy to a market economy, which shakes the old values to their very roots. The country is undergoing economic, political and social transformation. The stability of the past is gone and business leaders and their organisations conducting business in this new environment find themselves trying to survive a host of new threats and at the same time capitalise on newly created opportunities²⁴.

In order to understand the traits of the Russian culture, the historical influences in traditional Russian society have to be considered both

²⁴ Longenecker, C.O, Popovski, S, 1994

before, during and after the Communist regime. This will provide us with a better understanding of why the Russian business environment is assuming the form it has today. We will start to describe the different periods of Russian history, and continue with describing how the traits from this background shaped the Russian business management.

4.1.1 Traditional Russian society

During Peter the Great's reign (1689-1725), Russia began modernising the old agricultural society, and European influences spread throughout Russia. He was influenced by the West, subordinated the Russian Orthodox Church hierarchy to the Tsar and reformed the entire governmental structure. In the 19th century, Russian culture flourished as Russian artists made significant contributions to world literature, visual arts, dance, and music. Russia expanded across Siberia to the port of Vladivostok, which was opened on the Pacific coast in 1860. The Trans-Siberian Railroad opened vast frontiers to development late in the century that further opened up for influences from the Far East.²⁵

Centralisation of authority and responsibility has a long history in Russia. In the village communes of medieval Russia, there was a board of elders who were entrusted to take the common decisions in the villages. Through open forum discussions, the elders sought the consensus of the group and made recommendations for the chief elder (Starotsa). The consensus was important so that no single person was responsible on his own, but the whole group. The elders were thus the ones that were leaders of traditional Russian society and had the full responsibility for the welfare of the group.

In this society the well being of the collective was highly valued, and individuals that prioritised themselves and showed signs of making themselves better than the group were viewed with suspicion. This led to an environment where striving, ambition and initiative were considered to be destructive for the group harmony. "There was an anti-achievement attitude that could be summarised as: *Don't rock the*

²⁵ www.tradeport.org, 2000-10-09

boat”.²⁶ A very deeply rooted view is that every one should be at the same level, no one was therefore supposed to sink too low or rise too high. Furthermore, Russians are often described as cautious, which originates in the traditional Russian society. This behaviour also explains why initiative was not a common feature among people.

Although there are many similarities in the ethical and value systems of Western and Russian people, there are two differences that are of importance, where the second is the result of the first²⁷. The first is the Russian dual ethical standard, where ethics are constructed according to the situation that is present, and especially taking into regard the role of impersonal and personal relationships. Considering Western ethics, on the contrary, employ the same set of standards regardless of the situation. The second characteristic can be said to be the result of the dual ethical system of the Russian ethical system. It is the widespread use of *blat*, which are informal connections in order to obtain favours. The *blat* originates from the traditional society, where the peasants fawned on the landowners by bringing them food from the fields.

4.1.1.1 The Communist rule

Russia’s 20th century has been one of sorrow and slaughter, turmoil and tragedy, of ideas that went wrong and a vision that became perverted.²⁸ It started with a lot of internal pressures after World War I, which led to the 1917 uprising and revolution. The bourgeois revolution in February led Tsar Nicholas II to abdicate the throne and a provisional government to take power. During the Bolshevik revolution in October 1917, the Communists took the power. First among the Communist political figures was the leader of the Bolshevik Party, Vladimir Lenin, who seized control and established the Russian Soviet Federated Socialist Republic.²⁹ The years under Lenin’s rule were called the ‘Commanding heights’ of the economy, which was the nationalisation of banks, heavy industry and communication among others. Civil war broke out in 1918 between Lenin’s “Red” army and

²⁶ Puffer, S, p 306, 1996

²⁷ Puffer, S, p 305-308, 1996

²⁸ Holden, Cooper, Carr, 1998

²⁹ Hertz, N, p 16, 1997

various “White” forces and lasted until 1920 when, despite foreign interventions, the Bolsheviks triumphed. The Red army conquered Ukraine, Belorussia, Azerbaijan, Georgia, and Armenia, and a new nation, the Union of Soviet Socialist Republics, was formed in 1922.³⁰ The course of economic development changed somewhat for the better between 1921 and 1928.

Lenin believed in the Marxist values; that human reason could comprehend history and use this as a guide to transforming the society. Marx believed in a society where no person oppressed another and in which all lived equally unalienated lives. However, Lenin was of the opinion that the proletariat needed the guidance of those who comprehended the true direction of history, who were the intellectuals in the society. The intellectuals were in this case the professional revolutionaries of the Bolshevik party, in other words the Communists, which meant that these held all the power in the country.³¹ Lenin wanted to create a ‘new Soviet man’, by abolishing private property and capital ownership in favour of the state, and thus eliminate, what he meant were the primary causes of evil in society.

Traditional Russian opinions of power and responsibility were transferred into the communist period, which resulted in practices that hampered the effectiveness of enterprises. Lenin introduced the *central leadership/grass-roots democracy*, where the party instructed the enterprise managers to combine the one person leadership with collective leadership. In this process the leader identified and set goals, which then was used by the collective in their discussions and proposal developments that was submitted to the leader. Finally, the enterprise manager made the decision and instructed the collective to implement it.³² However, this sort of combined decision making was short lived.

In the late 1920s, Josif Stalin became General Secretary of the Communist Party of the Soviet Union (CPSU) and maintained complete control over Soviet domestic and international policy until

³⁰ www.tradeport.com, 2000-10-09

³¹ Hertz, N, p. 18, 1997

³² Puffer, S, p. 304, 1996

his death in 1953.³³ Stalin pushed the Marxism-Leninism values to their furthest extreme, by ruthlessly eliminating opponents and even allies and collaborators, who might question his own ability to lead the nation. Stalin was obsessed with total control, which he motivated by the higher level of understanding held by the leaders of the Communist party.

In the 1920s the Soviets' managerial structures were forced to adopt the Stalin model of state-led industrialisation. Stalin's totalitarian oppression and the manager's critical roles in the rapid industrialisation resulted in the undermining of the *central leadership/grass-roots democracy* on behalf of the autocratic manager.³⁴

Three fundamental economic changes were introduced in the realisation of the first Five-year plan under Stalin's power. First, a system of national economic planning was introduced to co-ordinate economic activities and all markets were abolished. Second the collectivisation of collective farms and state owned farms began. Third, all remaining privately owned property was eliminated and transformed into state ownership. The five-year plan meant an extremely complex planning process with integration of all the factors influencing the production. The central planning agency was the State Planning Committee – Gosplan, with the task to ensure coherence and balance of long and short-term plans. In addition, the Gosplan was responsible for allocating the most important resources and materials to the principal users. Production was the responsibility of the state. The plans were basically orders with no space for managers of production facilities to decide. The target, volume and requirements were set for the enterprise, and the manager would respond by indicating the possibility for the enterprise to reach the set targets, which in its turn was the base for decisions taken by the Gosplan in the definitive plan. Heavy industry, such as iron and steel industries was a priority of the Command economy investments, thus, expanded rapidly on the behalf of the agricultural and consumer goods. From the 1930s

³³ www.tradeport.org, 2000-10-09

³⁴ Puffer, S, p 304, 1996

until the years after World War II, the rate of growth was high in Russia.

From this system evolved a new industrial culture where waste and disregard for efficiency was normal. The planners were supposed to make sure that the targets, prices and production were following the plans. As competition was suppressed, the production of goods tended to become highly concentrated on one or two producers in the whole country of a particular type of goods. This system was slow and inefficient which led to hoarding resources.³⁵ Under Stalin's power, millions of citizens were collectivised under state agricultural and industrial enterprises. Millions died in political purges, the vast penal and labour system, or in state-created famines.³⁶

Stalin's successor, Khrushchev, was the one to initiate reforms of the system in 1960s, as a result of rising pressures for change. The reforms mainly aimed at improving the enterprise's decision-making by reducing the number of planned targets. With this the plan foundation and implementation was improved, but the communist party still kept control of the allocation of resources.³⁷ Under the pressure of rapid industrialisation, an impressive system of technical institutes was built, separating research and teaching. After Khrushchev's liberalisation of the Soviet, technocrats became the leading forces in the social structure. Exhaustion of the reserves for extensive economic growth because of wasting and hoarding made the technological elite frustrated by communist bureaucrats. This led to a rise in the obligations and a fall in the real rights of Russian managers that, in turn, provoked further deterioration of industrial performance.

The real reforms were implemented by Michail Gorbachev who came to power in 1985. He wanted to create growth and eliminate the defects of the former economic system. Within the framework of the state ownership, enterprises were given more autonomy, with more control over their own affairs, and especially responsibilities concerning input

³⁵ Hertz, N, p 17, 1997

³⁶ www.tradeport.org, 2000-10-09

³⁷ Hertz, N, p 19, 1997

and output decisions. The enterprises were given more freedom to set their own targets and to make their own decisions. Furthermore, Gorbachev opened up the entire ownership system, formerly in total state control, admitting non-socialist ownership of production. Also anti monopoly legislation was introduced as a major step towards economic reform, which released the enterprises from the direct control of their management and day-to-day running of the business. Gorbachev worked for large-scale change and market reorientation through the lead-words glasnost (openness), which aimed to make the country and the society more transparent, and perestroika (restructuring), which was supposed to accelerate the economic growth.³⁸ However, the process of change was not a painless one and the economy suffered a deep crisis, including financial instability, growing shortages and depreciation of the currency. This was referred to as being as “an irrevocable choice” for the country on its way towards the market economy system.

In this environment, the power in the Soviet enterprises was initially redistributed to include collective participation in decision making. However, influential managers argued that this policy was undermining organisational effectiveness, and power should be given to the enterprise manager. The result was overburdened managers responsible for everything in the enterprise. Furthermore, the workers became paralysed as they did not dare to take any actions without the manager’s orders, and were thus also avoiding being held responsible if something went wrong. Managers were involved in all operations in their enterprises and therefore, spent a lot of energy on operational problems instead of on managerial issues.

During the communist regime managers were rewarded for carefully following orders, demonstrating their loyalty to the Communist party. Initiatives were not only discouraged but also even punished, which to this day has greatly influenced people.

³⁸ www.tradeport.org, 2000-10-09

“It was a game in which virtually everyone tacitly participated. Such deception was often a matter of survival, and was viewed as a necessary evil.”³⁹

The dual ethical standards originating from the traditional Russian society, was during the communist rule still highly evident in the distinction between personal and professional honesty. Keeping one’s word was highly essential while managing by the rules was considered unrealistic and even undesirable. Enterprises kept two sets of books, one for the company and one with information to show the inspectors from the authorities. The use of *blat* was a customary method applied by enterprises in order to overcome bureaucratic bottlenecks. The enterprise manager had to be skilled in using the *blat* for the benefit of the enterprise and the workers within it. The loyalty between the manager and the workers was high and the workers were like a family with personal and professionally intertwined lives. Moreover, the Russians were very proud of their big factories, “Big Is Beautiful”,⁴⁰ as these were among the biggest in the world.

4.1.2 Management Sovieticus⁴¹

With regard to the management style under the communist rule, we will now describe Management Sovieticus, which was created in the Soviet Union as a management system based on socialist ideas. We will now describe the different categories of Management Sovieticus, and then continue to explain the irrationalities of the Management Sovieticus. With this background we will also describe the background to these irrational characteristics, and what made them rational in that specific setting.

Management Sovieticus was implemented, not only in the Soviet Union, but also to various degrees in the entire eastern bloc. Management Sovieticus soon became “the mother of management styles” in all these countries. The system is thus not a national concept but rather a product of planned economy. The main purpose of

³⁹ Puffer, S, p 311, 1996

⁴⁰ Puffer, S, p 313, 1996

⁴¹ Liuhto, K, 1993

Management Sovieticus was to create uniform managerial behaviour, which could be supervised by the authorities. There is an irrational and a rational side, which are important to understand. By that, an evaluation of the applicability to the conditions of market economy can be made. The irrational side of Management Sovieticus is illustrated by the following ten categories.⁴²

1. Political-nepotistic recruitment
2. Administrative PR-management
3. Bureaucratic-authoritarian manager dictatorship
4. Wasting and hoarding of factors of production
5. Undervaluing of the product
6. Massive feudalistic corporations
7. Organisational misuse
8. Withholding of information
9. Ignoring of innovation
10. Lack of strategic management

4.1.2.1 Political-nepotistic recruitment

The planned economic systems have traditionally chosen their managers on the basis of their political status. Thus, being a convinced member of the Communist Party was essential for reaching any top position in society. This irrational practice of political-nepotistic recruitment was not practised exclusively on management level, but on all levels, which led to the ignoring of the most qualified individuals when appointing whichever position. Although the nepotistic recruitment brought the company activities closer together as all the involved were of the same political opinion, the result of this was though an ingrown organisation vulnerable to misuse.

The rationality of political recruitment is the existing principle of loyalty to the party, which also could be found in nepotism. The planning organs endeavoured to retain the power in the control of the Party, and also to increase the commitment of enterprises to the centre. Nepotism created a bond of loyalty between the enterprise manager

⁴² Liuhito, K, p, 32, 1993

and his subordinate, on the one hand, and between the manager and the Party on the other. Since the different parties were of the same basic opinion the, plans got stronger support and were thus easier to realise.

4.1.2.2 Administrative PR-management

The defects of the planned economy resulted in the centralisation of the manager's functions to the administrative PR-activity, that is, the maintaining of confidential relations with the planning organs. Here the traditional usage of *blat* was crucial in business life. Yet another task of the manager was to secure the enterprise position in the planning machinery. The management therefore hid the actual state of production from the ministries. This implied a very close co-operation within the enterprise that enabled the covering up of illegal activities, and at the same time permitting an optimum output in public, thereby pleasing the authorities. The collapse of this inner-circle was disastrous as this could reveal the secrets of production. Therefore the manager had to put a lot of time into maintaining the close relationships with those involved.

One of the purposes of administrative PR-management and the *blat* was to obtain easier production tasks in facilitating financial operations, and also to receive a production plan as low as possible since a low production objective facilitated the fulfilment of the set objectives. The achievement of the goals in turn required the setting-up of a close net of relations. This net of relations was not a chain of reciprocal corruption but more a functional part of Socialist economies.

4.1.2.3 Bureaucratic-authoritarian manager dictatorship

One of the more prominent characteristics of management in socialist states was bureaucracy. The command system inside the enterprise is evident example of this feature. Formal orders were the basis of management in the Socialist enterprise. This resulted in strong hierarchical organisational structures with the manager at the centre of the structure. The controlling machinery of the economy did not pay any interest to what internal measures were taken, but was only interested in the realisation of plans. The informal rule was that it was up to each manager's responsibility and discretion to decide how to

reach the targets, even illegally, as long as he was not caught breaking the regulations. The dictatorship management style led to an environment where the personnel had no or little, influence on the operations of the enterprise, which resulted in organisational indifference. As the employee was not rewarded for innovative ideas, but rather was expected to follow orders without questioning them, the innovation became very poor.

The rational side of the bureaucratic-authoritarian management was the avoidance of making mistakes by following the plan carefully. By giving strict orders and controlling the employees, the manager also minimised the risk of being responsible for not following the plan and thus losing his position in the enterprise. Thus, an individual was better off accepting irrationality, than coming up with personal solutions, which could lead to a loss of one's position if they failed or even one's life.

4.1.2.4 Wasting and hoarding of factors of production

The wasting of factors of production, including the wasting of time, labour, material and money, was yet another distinctive characteristic of the planned economies. An example of the wasting of time was the slowness of operations, which demanded much more time than comparable activities in the West. Furthermore, the hoarding of resources soon led to shortage in the economy. The enterprises employed vast numbers of employees, without the ability to offer any challenging or even meaningful tasks for the employees, which created apathy and inefficiency to the companies and in addition decreased the commitment of personnel. Furthermore, the waste of factors of production was reflected in the abuse of natural resources.

The rational explanation for the waste of factors of production is partly that Russian enterprises produced goods that were not demanded by the market, but decided upon in the plan. In addition the measurement used was gross production, which was targeted input and not output. This explains why certain firms maximised consumption. This led to an amount of goods that were sold on the black market, making the enterprise managers to gain on the ineffective measurements. Although

this behaviour, in western market economy terms, seems totally absurd and irrational, the Russian enterprises in fact optimised their own results through this method. At the same time, the hoarding of factors of production can be explained by its function to protect the enterprise from the uncertainties of tomorrow.

4.1.2.5 Ignoring of the product's usefulness and quality

The evaluation of a product's usefulness and quality in the socialist system was not carried out by the market but by the organs of the planned economy. This was a very complicated task for the organs, which often led to discrepancies between what consumers demanded and what the organs qualified as high standard products. The priority of the Russian enterprise was to establish the best way to operate for itself from the government deliveries, generally at the expense of the final product's usefulness and quality.

The production of useless and low-quality products originated from the fact that quantity counted more than quality. A common way of achieving objectives that were in danger of not being fulfilled was to decrease the quality of the product. Thus, there was certain logic to this behaviour as well.

4.1.2.6 Massive feudalistic corporations

The Russian enterprises were of gigantic size, which not only manufactured products; the enterprise also had social duties as, for instance, providing their personnel with accommodation, hospitals and educational services. This gave the enterprise the shape of a feudal system rather than an enterprise.

Moreover, the enterprise size lessened the employee's ability to influence the management, which further rooted the manager's dictatorship. These giant enterprises constituted the framework of planned economy thus creating a lack of independent small-scale industry and enterprises offering business services.

The reason for the creation of giant conglomerates was because the enterprise had to take care of the production from primary product to final product and be more or less self-sufficient.

4.1.2.7 Organisational misuse

Organisational misuse was common practice among the employees during the Communist era. Eventually, the line between legal and illegal behaviour became blurred. For instance, stealing from the government was usually not considered a crime since everything was everybody's property. Two of the most well known forms of misuse were "Gogolianism" and the "Georgian phenomenon". In the former, enterprise management registered dead people into their list of employees. This enabled the management to collect their salaries for itself. In the latter case the enterprise tried to get itself production plans so low that it could use the factors of production for the running of its own factory. The managers in the enterprise covered each other's backs, prevented the authorities from finding out. The widespread misuse became an accepted part of business culture.

The explanation for the widespread misuse in enterprises and in society as a whole is man's egoistic aims at acquiring financial benefits for himself. Another reason for the misuse is the blurring of morals and the fact that misuse became an accepted part of common business practice.

4.1.2.8 Withholding of information

In Russian enterprises and the planning system as a whole, information meant power, and was thus guarded closely. The withholding of information became common practice on several levels. For instance, information was withheld between enterprises and ministries, as well as inside the enterprises themselves. The mystery-making regarding information resulted in decreased productiveness within the enterprise, as well as in the planned economy in general, since no one wanted to share information or ideas. Moreover, the withholding of information led to insecurity within the organisation since most of the information and power was concentrated to the managers.

The rational behaviour behind the withholding of information is, on the one hand, found in the power play where managers secured their own position by keeping information to themselves. On the other hand, the use of correct information required specific qualifications from the user because its spreading could have led to the deterioration of one's own position.

4.1.2.9 Ignoring of innovation

One of the most prominent features of Management Sovieticus is the lack of innovation and development. Innovation and planning was not rewarded, but instead, the maintaining of status quo was the priority, which manifested itself in increasing bureaucracy and the retaining of old customs. The lack of innovation transferred the product design and production planning into research institutes, whose new designs were often neglected.

The rational explanation to why development of enterprise production was not a priority is that product design only jeopardised attaining the production targets.

4.1.2.10 Lack of strategic management

The link between enterprise innovation and markets was cut by the research institutes that developed all the innovations independent from the opinions of the market or the producer, who actually were the ones that were in contact with the product. In addition the planning organs cut the link between enterprise production and its planning unit. Thus the strategic planning was left to the planning organs and the sole role of the enterprise itself was to execute the plans. The strategic planning in Russian enterprises did not regard the future developments of operations but was limited to maintain the net of relations and power play.

Finally, the lack of strategic thinking was not due to the inability of Russian managers to think strategically but because higher officials, mainly ministries, were in charge of the strategic dimension.

To conclude, the irrationalities of the system can be explained, not by the irrational Management Sovieticus, but by its irrational environment. It was a very logical set of practices, considering the environment in which it was operating. Because of the chains holding the enterprises, managers developed behaviour that enabled them to cope with the absurdities of the system. In that respect, their behaviour was rational.

4.1.3 The transition period

In the 1980s the Communist party lost a lot of its previous power. In 1991 the Communist party tried to take the power through a military coup, which failed and led to the Communist party's fall. In December 1991, the Soviet Union was formally dissolved and replaced by the Confederation of Independent States (CIS)⁴³. Boris Yeltsin became the first free elected president of Russia. He introduced a stabilisation program consisting of three factors: liberalisation of prices, sharp reduction of central budget expenditure and the break up of the state monopolies through a privatisation programme. The country also opened up for foreign investments and adopted a specific law for the area. The 1990s was a period of high inflation, which was a result of the liberalisation of prices in 1992 and efforts were made to keep the inflation down.

Russia has experienced zero or negative growth every year since transition started, except for 1997 when output grew by 0.8 per cent. Most of the former Soviet Union states have encountered great difficulties. Nine out of twelve states have registered a drop by 40 per cent or more of their pre-reform output. Ukraine and Georgia are the worst performing countries of them all, with a decrease of two-thirds.

Moreover, in the first years of transition, the fall in output was partly due to a statistical phenomenon. In the communist system the output rates were often overrated because of falsifying of results, to avoid being punished for not reaching targets. Furthermore, the overrating of output rates and results served to conceal the fact that socialism was

⁴³ Hertz, N, 1997

not a well-functioning and effective economic system. Along with the failure of more and more enterprises subject to international competition, the falls in output resulted in growing unemployment rates.⁴⁴ And as a result, there were also increasing income inequalities with resulting poverty.

Also privatisation programmes were characteristic for the initial transition years. In 1991 the biggest mass privatisation in history of government property started, which was a great success. Private ownership demands, rules and institutions such as contract law, bankruptcy law, or courts for settling disputes were implemented. The absence of such infrastructure created massive opportunism.⁴⁵

However, after difficulties in implementing fiscal reforms aimed at raising government revenues and a dependence on short term borrowing to finance budget deficits, the country entered a serious financial crisis in 1998. The situation were deteriorated due to lower prices for Russia's major export earners (oil and minerals) and a loss of investor confidence because of the Asian financial crisis. The result was a rapid decline in the value of the rouble, flight of foreign investment, delayed payments on sovereign and private debts, a breakdown of commercial transactions through the banking system and the threat of runaway inflation.⁴⁶ Though, Russia appears to have weathered the crisis relatively well and real GDP increased by the highest percentage in 1999 since the fall of the Soviet Union, the rouble stabilised, inflation was moderate, and investment began to increase again.

When Vladimir Putin succeeded the elderly and ailing Boris Yeltsin as president in 2000, it was perceived as a symbolic change of epochs. Strong Russian political and cultural traditions are spurring Putin to bring Russia back into the group of the world's leading nations.⁴⁷ The first few months of Putin's rule showed that he is quite serious about

⁴⁴ Smith, A. H, 1999.

⁴⁵ Usunier, J-C, 1996.

⁴⁶ www.tradeport.org, 2000-10-09

⁴⁷ Statement by Mr. Viktor V. Gerashchenko, 2000

the comprehensive modernisation of Russia. If he continues to pursue this objective, his economic achievements will depend on progress being made in four areas: bringing down foreign debt, creating a market-friendly environment, restructuring the real sector, and bringing order to economic federalism.

The transition of a country's political and economic systems implies that several reforms have to be executed. Market-oriented reforms as well as institutional ones have to be made. It has been argued that, since transformation includes several components that reinforce each other, these should be introduced simultaneously. However, this is not feasible in practice, the reason being that all these measures take time. Price liberalisation takes the shortest time while privatisation takes the longest. The time needed for successful stabilisation is fairly hard to predict.⁴⁸

In order to achieve a market economy, liberalisation and privatisation must be implemented. Private property is important in order to establish truly independent agents, which support market decisions. Private ownership of capital is a motivational tool for allocating resources efficiently. Furthermore, the removal of price controls must be combined with de-monopolisation, otherwise liberalisation would result in monopoly pricing.⁴⁹

Countries in transition face several challenges of reform, as the new economy necessitates for instance, financial institutions, solid legal systems giving clear directives on investment, competition policies, labour market regulations and social security. An aspect, which is usually associated with market economies, is the principle of pluralism and multiparty democracy, since the processes of political and economic transformation are often very closely linked to one another. Democracy is, however, not a prerequisite for market economies.⁵⁰

⁴⁸ Elliot, J. E., Vol. 24. No. 7-9. 1997

⁴⁹ Elliot, J. E., Vol. 24. No. 7-9. 1997

⁵⁰ The course compendium for Western enterprise strategies in East and Central Europe

If modernisation efforts begin today, according to some sources, it will take from 15 to 30 years for Russia to catch up with the West and that is if the Russian economy grows at 6-8 percent annually. The most plausible economic growth is estimated at 5-6 percent a year for the next 10 years, based on the assumption that Putin is successful in his reforms⁵¹.

It is furthermore plausible to assume that transition will still take a lot of time. One of the reasons for such a point of view is that it is impossible for a society to make a swift transition from a state where arbitrary rule of a massive bureaucracy was on the agenda, to a state where the tradition of the rule of law would be perceived as innate. A second reason for a gloomy forecast is that the communist ideology and its effects on the business environment will demand a lot of time before they disappear.⁵²

But one should also bear in mind that Russia's real economic course is strongly influenced by businesspeople that are accustomed to lobbying, corruption, and paternalism. Influential industrial groups want the government to protect them from rival foreign investments by allowing only selected "friendly" companies to operate. Nonetheless, it is likely, though not inevitable, that Putin's economic policy will have a liberal bias, because the government currently controls a very small share of the national economy. Existing government financial and economic institutions lack the power and the resources to intervene effectively in the Russian economy, so it will be difficult for the government to be an active player in Russian markets in the years to come.⁵³

4.1.4 Management Transitus

In order to accomplish the integration of the Western and Eastern business features, mutual awareness, understanding and confidence is very crucial. By this, cultural clashes between countries can be avoided and instead this could bring a utilisation of the countries' characteristics from both sides, in order to reach a managerial synergy,

⁵¹ www.swedishtrade.com, 2000-10-09

⁵² Uzawa, H., 1993.

⁵³ Statement by Mr. Viktor V. Gerashchenko, 2000

which earlier was only an illusion.⁵⁴ The enterprises that enter Russia have to deal with the cultural setting and adapt to the local business environment and the local country culture. Thus, the Western companies need to understand the behaviour, attitudes and motivations that underlie the cultural behaviour of the Russian people. Then they will be in a better position to deal with their partners and thereby also make the interactions more productive. Russian enterprises, similarly, have to be prepared to meet the influences from the Western market economy, which are streaming into the country.

The enterprise manager that formerly used to have all the power and conduct autocratic leadership today has to learn how to share the power of the enterprise. It is a question of being able to delegate and push the decisions further down the hierarchy, in order to meet the requirements of the market economy forces. This also implies that the lower managers and employees want and dare to take a share in the decisions and to share ideas, something that will take time as the long suppression of these characteristics remain in people's minds.

One character that the managers today have to struggle with is the tremendous social pressure against ambitious entrepreneurs. These entrepreneurs are objects of envy and resentment:

*"In America it's a sin to be a loser, but if there is one sin in Soviet society, it's being a winner."*⁵⁵

New generations of Russians are demonstrating great entrepreneurship and willingness to innovate. They have not had the long experience with the communist rule and therefore they see the need for market economy in Russia. However, the climate for private enterprises is still difficult, as there is virtually no sufficient legal or economic infrastructure to support the private enterprise. Some laws are even rewritten so often that it is difficult to develop any long-term business strategies for the enterprise.⁵⁶

⁵⁴ Liuhto, K, 1993

⁵⁵ Barringer, Cited in Puffer, p 308, 1989

⁵⁶ Puffer, S, p 310, 1996

Russian managers now face the major challenge of reconciling the goals of the market economy with the enormous traditional social commitments to employees. For the country, the future will depend on the abilities of Russian managers to link the legacy of the communist regime and the national traditions in industrial organisation with the requirements of a modern economy.⁵⁷ Although economic reforms have been taking place in much of the former Soviet Union since the 1970s, large scale change and market reorientation are relatively new phenomena, dating back to Michail Gorbachev's perestroika and glasnost movements of the late 1980s. Marketing, sales, competitive pricing and customer satisfactions were simply not organisational priorities. Risk taking was strongly discouraged and managers were expected to follow party doctrine in their organisational leadership and resource practices. In this unpredictable and hyperactive environment facing the managers operating in Russia were facing big challenges to adjust to the new circumstances. What was once an artificially stable and predictable environment is now highly unstable and erratic.

The new environment facing the business leaders after the fall of the Communist regime was unlike anything these organisations and their leaders had seen or experienced before. They found themselves competing on a new playing field driven by competition, efficiency, innovation, and marketing. To make matters even worse, managers and executives and CEO's were expected to lead their organisations in this new environment, often without the training skills, experience and savvy to do so according to recent practice and research.⁵⁸

⁵⁷ Gurkov, I., Hesselting, P, v25, n4, p 3-6, 1995

⁵⁸ Longenecker, C.O, Popovski, S, v37, n6, p 35-39, 1994

Traditional Russian Society (1400s to 1917)	The Communist Rule (1917 to 1991)	Transition Period (1991 to present)
<i>Leadership Motivation</i>		
Power		
Powerful autocrats	Centralised leadership	Shared power and ownership
Responsibility		
Centralisation of responsibility	Micro managers macro puppets	Delegation of Strategic decision making
<i>Drive</i>		
Ambition		
Equal Poverty for all	Service to party & collective goods	Overcoming the sin of being a winner
Initiative		
Look both ways	Meticulous rule following	Let's do business
Tenacity		
Life is a struggle	Struggling to accomplish the routine	Struggling to accomplish the new
<i>Honesty & Integrity</i>		
Dual ethical standard		
Deception in dealings fealty in friendship	Two sets of books personal integrity	Wild capitalism personal trust
Using Blat Connections		
Currying favour with landowners	Greasing the wheels of the state	Greasing palms but learning to do business straight
Self confidence		
From helplessness to bravado	From inferior quality to "big is beautiful"	From cynicism to over-promising

Table 4.1 Leadership traits

Source: Puffer, 1996, p 302

We use Puffer's table over Leadership traits in different time periods in order to summarise how the historical influences have shaped the traits of the Russian leader through the years, (see table 4.1 above). The international consulting firms have to understand this development and how it influences the behaviour of the people in the Russian business environment.

4.1.5 Development of Management Transitus

*“When Management Sovieticus lost its foothold, the national culture gained in influence. The national culture is probably the single most important factor that changes Management Sovieticus. Since Management Sovieticus remains in the consciousness of people, it is probable that the new managerial culture will comprise old customs, new ideas as well as the heritage of Management Sovieticus”.*⁵⁹

With the collapse of communism, a new era began for Russia. This implicates a transition from the closed planned economy of yesterday to a new economic system. The transition of planned economy to transition economy has created a managerial environment where the old customs cannot be applied to the present circumstances although many rational features exist. It is common that the new models are sought directly from the West, however, in most cases it is not possible for Russia to directly import and apply the Western values, customs and management styles. This impossibility does not mean though that the Russian managers are unable to adapt to the Western ideologies, but rather that this does not fit to the present environmental setting that Russia is in now. Management Sovieticus has never been, in market terms, an efficient way of managing an enterprise, and with the changing political and economic environment this is truer than ever before. Therefore, a new managerial entity and business environment is developing. The “Management Transitus”⁶⁰ is a result of the heritage of the planned economy and the new process of European integration

⁵⁹ Liutho, K., 1993

⁶⁰ Liutho, K., 1993

and convergence with the market economy features in the front. The result and the process are dependent on how deeply the values of the Management Sovieticus were rooted in the minds of people and how fast the development towards market economy and integration with the Western European countries is proceeding.

Thus, a synergic entity could be formed out of the two different management styles applicable to the transitional environment. This also includes careful consideration of the special features and traits of each economy and the underlying national culture characteristics. In order to understand the features that influence the development of Russia's transition management, see figure 4.1 below.

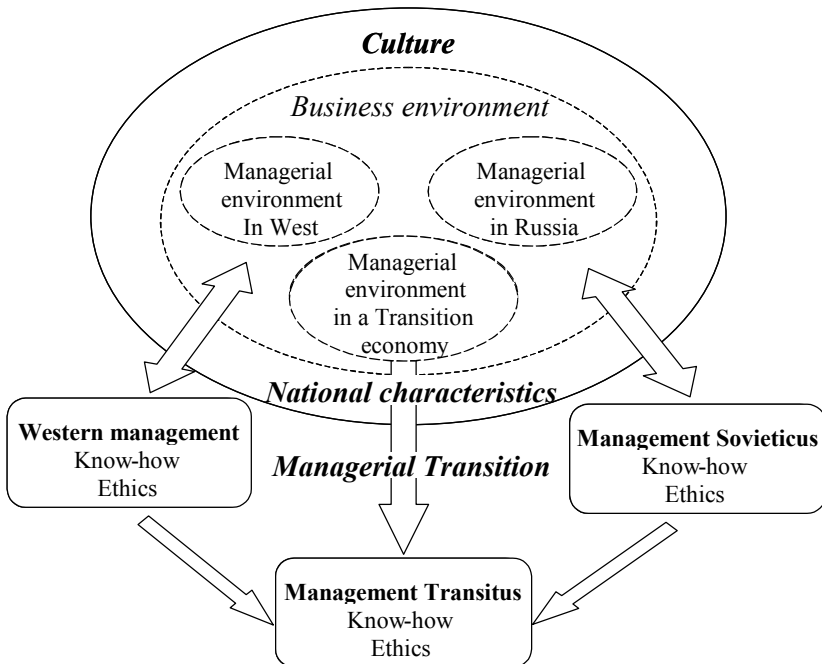


Figure 4.1 Development of management Transitus
Source: Own Model of Management Transitus

Each management style is adapted to the environment and milieu where it is active. As this milieu is continuously changing, this is also reflected in the management style in a mutual interaction process. The managerial know-how and ethics fits their own milieu, which does not make it applicable to other conditions though. Therefore, the efficiency of Western managerial skills and ethics is questionable when applied to other managerial milieus. As for management Sovieticus, the changed economic transition makes the traditional ways no longer useful in the new environment. Therefore, a new management style in Russia is developing in order to fit with the external factors of influence. This will thus be a combination of Management Sovieticus and Western management. Very crucial in this matter is to be aware of the influences of national culture, which determine the fundamental characteristics of management style in Russia.

The political change is naturally the main reason for “Management Transitus”. It is probable that remains of the old system will be visible for years to come. According to Kupferberg, the Russian management structure includes the traditional bureaucrats and bandits but also new traders and entrepreneurs.⁶¹ Furthermore, individuals often seem to oppose changes that threaten their current situation, since this means that they do not know if they will have their position the next day. This could imply that there is some resistance among the Russians to change, which thus hampers the developments of the country towards a market economy.

Every month there are new changes coming into Russia from the western market economies, but a problem that remains is that Russia has not the right infrastructure necessary for a market economy. Since the Russian market has opened up, people have started to see the benefits of the western involvement in business and they are talking about how to attract western investment and decrease the barriers even further.

⁶¹ Liutho, K, 1993

As a consequence, the business environment and the people approve western influences. This is especially obvious in Moscow, which differs from other parts in the country. This has to do with the fact that most foreigners come to Moscow, which makes this city the most westernised of Russia's cities. Foreign firms bring new ways of management to Russia, which changes the business environment. Today it has created a demand for more market oriented people that were not found on the market ten years ago.

In the last five years, the level of education has risen in Russian universities (although it has always technically been high), and many young Russians go abroad to get their education in the West. This is the kind of people that the Western Multinationals and international consulting firms want to employ. It does not only concern the fact that the education is taking place abroad but also that these people have seen and been exposed to how things work in a different environment.

The transition process is far from painless, and a number of side effects have been observed, as the exaggerated emphasis on national cultural factors, which followed the fragmentation of uniform thinking. This may not seem too surprising, given the years of suppression, but it has often resulted in extreme nationalism and the ending of alliances in the former Soviet Bloc. All too often, Russian enterprises embrace anything regarded as Western. This has manifested itself in the obtaining of factors of production from the West even though there are satisfactory ones obtainable at lower prices from Russia.⁶² Some sources contend that there is a tradition of treating all foreigners as experts, no matter what.⁶³

Even though Russians have always admired the West, they have now started to have more self-confidence, knowing that they can do as well as the Western enterprises and managers. However, the new wave of entrepreneurs has created something of a "Wild West" or rather a Wild East, in which somewhat overly optimistic entrepreneurs test out their ideas with various success. This has led to a tarnished reputation for

⁶² Smith, A. H 1999

⁶³ Bubnova, N, Interview Deloitte & Touche

the private enterprises in the society, and the opinion that these managers only want to fool people and gain at other's cost.

4.2 Dimensions applied to Russia and its people

This section describes the way the Russian people behave, both individually and in enterprises based on Hofstede's and Trompenaars cultural dimensions.

We have highlighted important historical, economic and political aspects of Russia, before, during and after communism. These past issues and events are still very present in the minds and actions of firms and individuals today. Therefore, this background is needed as a starting point for understanding why the Russians behave as they do. It is of crucial importance for an international consulting firm and its employees to understand this behaviour, in order for it to be able to provide services that are effective in Russia, that is, services, which are provided within the context of the specific traits of the local country culture. Only in this way can an international consulting firm secure that the design, delivery and implementation of technical services (accounting, marketing, management, etc.) are well adapted to the local country culture. This is important when the clients are local enterprises as when they are foreign enterprises active in Russia.

Power distance

As described above, Russia has a long history with centralised power and control, which is still to be seen in enterprises. Russian enterprises are characterised by central decision making and a hierarchical structure. Decisions are usually passed on to top management and this makes the decision process very long. However, decentralisation and modern management appear to become more common, replacing the old system, although this process is slow.⁶⁴

Russians belong to the more formal wing of Europeans and formal cultures are usually hierarchical, just as informal cultures are normally

⁶⁴ Kuoppala, 1999

egalitarian. However, while Russian culture is both formal and hierarchical, at the same time a key value is *uravnilovka*, egalitarianism, which looks askance at people who seem to rise above the rest. Russians deeply resent it when others have more than they do. The Russian culture is in contradiction in this aspect, with its egalitarian values coexisting with formal and hierarchical behaviour. Russian formality shows up in the way people dress and in their meeting and greeting rituals, while hierarchies are evident in the top-down approach to management as well as the scarcity of women in higher positions. Few women have reached positions of authority in Russian business organisations, which makes men unused to interacting with women on a basis of equality. Furthermore, strongly hierarchical societies slow progress and can bring about long delays in negotiations. In Russia it is even more important than in most other business cultures to make sure one is negotiating with the real decision-maker⁶⁵.

Uncertainty avoidance

Russian managers are used to following orders and directives from above, which means they are not used to any risk taking. When not taking any risk, they also avoid taking any responsibility and can therefore not be punished. Moreover, this system of uncertainty avoidance increases the tendency to blame others.

Individualism versus collectivism

Russian people are regarded as being highly individualistic according to Trompenaars. This implies that they are very goal oriented and take personal responsibility. One reason why the Russian people engage in personal relationships could be that it serves their own interests. Trompenaars means that it is interesting to note how discredited “group responsibility” has become in the formerly Communist country of Russia. Compared to traditionally individualist countries, Russia is now even more punitive toward individuals, thus the newly “liberated” country of Russia has become more “Western” than the Western countries themselves, according to Trompenaars.

⁶⁵ Gesteland, Richard, p.188, 1999

However, according to other author's, Russia is traditionally a collectivistic society, where individuals that tried to stick out were looked upon with suspicion and contempt. The collectivistic thinking was not a free choice but forced on to people and the communists did all they could to suppress individualistic thinking. People were not allowed to form groups of unions of any kind, (religion as one example) the only thing that was allowed, was to belong to the Communist party, which though only was allowed for a small selected group in society. Achievement striving and initiatives were considered destructive for the group harmony. It has always been important to show loyalty and belonging to the group⁶⁶. Living with a socialist doctrine for over 70 years has created the fundamental concept of sharing based on centralised state distribution of resources. However, the state's role in the economy is increasing and the society ceases to control and support its citizens. After the Soviet Union's fall, there has been a sharp rise in individualism, as it was suppressed for such a long time and now is accepted in society. One factor that might slow down this process, though, is the legacy of egalitarianism.

However, there are remains of the collectivistic thinking that still are visible in the Russian society. Referring to the uncertainty avoidance above, individuals do not want to take responsibility in their workplace, as this could mean that they alone can be held responsible for mistakes. This has created a tendency to seek protection in the group belonging, which provides the individual with a sense of security. The remains of the collectivistic thinking, is characterised in people's tendency to form groups, thus sharing the responsibility and securing the connection to others. In general, Russians want to form groups around themselves, in work and in life in general, which also can be derived from the importance of relationships, as you always need a connection to someone in the Russian society.

As far as the individual related dimension is concerned it is worth noting that individualistic orientation in Russia is high, although there is a high hierarchical orientation among the Russians. This is more an

⁶⁶ Holt, Ralston, Terpsta, 1994

evidence of Russia's real image behind the iron curtain. In spite of the ideals of communism that all people are equal and deserve equal treatment the real world of the working force and decision makers looks different.⁶⁷

Specific versus diffuse

The Russian culture is more diffuse than specific oriented. Rank and status are important and should be respected at all times. It is important that people with the same status meet in business dealings, otherwise the higher ranked person could be offended. Normally a business relation is founded on personal friendship.

Low mobility of people and a close link between business life and private life characterise a diffuse relationship, which can apply to Russia. This lack of workforce mobility badly hurts Russia's economy. Citizens interested in moving to a city with job prospects, need a residency permit, which cities like Moscow seldom issue. And while many people live in virtually free housing they received in the Communist era, moving to another city would mean paying for housing and is seen as risky. The almost total lack of workforce mobility is one of Russia's most serious problems.⁶⁸

Achievement versus ascriptive

Russia could be seen as ascriptive oriented where loyalty and admiration determine status. In Russian society, status is based on age, gender, and background, which can be seen in the over representation of elder men in higher positions in Russian enterprises, while academic background and performance is not credited in the same way. Power and titles are furthermore very important. This management style was more common in the communist society and today's managers tend to be both younger and more achievement oriented. However, negative attitudes toward individual initiative are deeply ingrained in the Russians and could therefore work as a hindrance for ambitious

⁶⁷ Fraser, M.C, and Chatterji, M, 1999

⁶⁸ Obermeyer, M, McKinsey, 2000

people. Furthermore, seventy years of communism ingrained in people's mind that capitalism was a bad thing.

Universalist versus particularist.

In the very relationship focused Russia, contacts are important and the word *blat* carries a strong meaning of relationships and connections. It is who you know that counts.⁶⁹ *Blat* "connections" have practically ruled all parts of life during the communist era. Russia is viewed as highly particularistic, where relations and unique circumstances override the importance of formal rules in determining what is right and good. Relationships and personal trust weigh higher than legal and formal contracts. One must also be prepared for the Russian counterparts to renegotiate the agreements after they are signed. In this environment there exist different perspectives of reality where one always sticks up for a friend, regardless of the circumstances. It is not until a friendly relationship is developed that one can start building trust. While there might be dishonesty in business dealings, there is always honesty in friendship. Therefore it is crucial to build up a strong and personal relationship to Russians, when dealing with them⁷⁰. To maintain a close relation is thus impossible without frequent contacts.

Still today, enterprises rely on a network of contact in order to minimise uncertainties in the changing Russian business environment. These networks have similarities with the networks that were extensively used during the communist period.

Time orientation

There are many different opinions on the issue to determine the Russians people's attitude to time. According to Trompenaars the Russians are highly future orientated, followed by the past. Moreover, he means that the present is the time that is least important for the Russian people. Important to note in this matter is that Trompenaars

⁶⁹ Gesteland, p 96, 1999

⁷⁰ Puffer, S, 1994

means that there does not exist any connection between past, present or future.⁷¹

The time behaviour in Russia is polychronic, and people usually are unconcerned about punctuality. Visitors from time-conscious, monochronic cultures have to be prepared for meetings starting late, to run on well beyond the anticipated ending time and to be frequently interrupted. Russian top executives seem to find it normal to conduct three or four different conversations simultaneously, some face-to-face and some on the telephone⁷².

Contradictory to the results shown in the study by Trompenaars, we believe Russia is rather more past and present oriented, based on our own study. The history of the country is very important to the Russians, which they all know in their hearts. Russians are proud of their history, in spite of a history of terror and economic failures. As the Russian managers never needed to think strategically, as shown in previous part, the time orientation in business activities follow a relatively short time perspective. Contributing to this, is the volatile and erratic development of the Russian business environment, where actors focus more on present than future business. This has created a society where Russians tend to focus on the present time and how to survive day by day.

4.2.1 Changes over time

As noted in the methodological chapter, we also undertook a survey that indicates changes over time in Russia. The paragraph above about dimensions applied to Russia and its people and the Management Sovieticus system describe and characterise the Russians and their behaviour. The purpose of this section is to show how the Russians themselves, as well as expatriates, find the development of the dimensions and the remains of the Management Sovieticus system in Russia over time (see annex).

⁷¹ Trompenaars, F, p 113, 1993

⁷² Gesteland, R, p188, 1999

Power distance

Russian enterprises today have a strongly centralised structure, which comes from the country's historical business environmental development. Surprisingly, according to most respondents the result shows that they think enterprises will be even more centralised in the future. Especially the Russian respondents were of the opinion that Russian enterprises did not have very centralised and hierarchical systems five years ago, but that they believe that this will be more so in the future. A possible explanation of this opinion is the changed management styles that exist in enterprises today. With this we mean that managers demand more of the employees today in a market economy than they did in the communist system. This could be perceived as a way of more centralised structure by people used to working in ineffective enterprises with no control over performance.

Uncertainty avoidance

According to the survey, the Russian people are still reluctant to take any risks. However, the tendency for the future is that people will not avoid risks to such a great extent. Since Russians have been living in an environment where the highest authority held all the responsibility and people were not used to taking any decisions on their own, we believe that this will take some time to change.

Concerning authority, the greater part of the respondents agree that the Russian managers had more authority five years ago and the tendencies show that already today this has changed considerably. Most respondents think that management will not have much authority in the future from a five year perspective.

Universalism versus particularism

Highly valued relationships can also be related to the particularistic culture, which Russia belongs to. Still, relationships are very crucial in business life, however, according to most respondents in the survey, this seems to decrease in importance in the future.

Individualism versus collectivism

The tendency in this matter is that the formerly highly individualistic people in Russia tend to develop towards less individualistic, however, still at a high level. This is an interesting observation as most other sources claim, the opposite and that the Russians, after the fall of the communist rule with the forced collectivistic systems, as a reaction became very individualistic. The unexpected observation might be explained in a developed loyalty towards the enterprise they work in, which formerly did not exist at all.

Achievement versus ascriptive

From this question we can see tendencies indicating that Russia is a really ascriptive society, where relationships are more important than merits. Five years ago almost all employment was based on personal relationships. It was very common to employ one's friend or relative. This is still a normal phenomenon in Russia today, even though this is loosening up a bit. More Russians get a business education at the same time as Western MNC's enter the country. These MNC's are used to recruiting on other criteria, such as education, experience and achievements. We believe that as more of these MNC's enter the country, merits will be more appreciated. Already today there has been a shift towards a more merit and knowledge oriented culture.

Efficiency

The survey showed clear tendencies that encouragement of competition in Russia has increased and is still doing so, which indirectly means that the need for effectiveness in enterprises has improved. This, for the Russian market new concept of competition, derives from the transition process towards a market economy system.

Lack of initiatives

As discussed in previous chapter, the Russian employees' lack of initiative taking could cause problems. The survey indicates that the initiative taking has slightly improved, but still not substantially. However, especially the Russian respondents were positive about the future development and thought that people would start to take more

initiatives in the near future. We believe that this can be related to the generation shift in the country, between the young entrepreneurial and the old generation carrying the heritage of the communist system.

4.2.2 Business implications for International Consulting firms

After having studied the Management Sovieticus, that ruled people in their work for a very long time period, and studied the cultural dimensions in general, one can clarify some business implications that could occur for International consulting firms doing business in Russia.

4.2.2.1 Importance of relationships

Relationships have always been very important in the Russian society, and still are. The tradition of *blat* and the network of relationship, in order to get things done, are commonly used also today. Relationships are highly crucial to get anything done in Russia, whatever it concerns. This also concerns all activities of international consulting firms, since nothing will be done without having the right contacts. For the consulting firms it is especially important to have good relationships with the clients, in order to get the information they need for designing their service to the customer. In this matter it is primarily the Russian clients that need time for developing trust, but this is valid also for the Western client, as relationships always benefit the co-operation between the parties. Moreover, the result that the consulting firm will be able to deliver to the client highly depends on the openness and trust between them, which will be enhanced in a good relationship.

4.2.2.2 Decision-making

It is important to know who the decision-maker is in the Russian enterprise or institution. This is due to the fact that Russia is such a hierarchic society with high authority managers. The employees have no influence whatsoever over decisions or changes in the company. For the international consulting firms this means that from the initial contact with the client enterprise until the final delivery or implementation of a specific service, it is necessary to negotiate with the right person all through the process. Everything basically has to be

discussed and cleared with the top manager, otherwise he might put a stick in the wheel and ruin weeks of work. As described, Russian employees are order-followers, which means that they will do exactly what the manager tells them to do, nothing more and, maybe, even less.

4.2.2.3 Strategic management

Russian managers have never had to worry about strategic thinking and decisions, since it was the authority that made these decisions. Focus was more directed at making sure to follow the plan made by the authorities. Now, facing the competition driven markets, managers face new demands and tasks that they have to handle in order to survive. They have to learn how to be competitive, be proactive and identify future demand. To think strategically is not natural for the Russian managers, and today they have to learn a totally new way of doing business. The only area where competition existed in the communist society was in sport activities, now the same way of thinking has to be applied to business. All of the aspects have to be appreciated when the international consulting firms design, deliver and secure the implementation of their strategic managerial services provided to their clients.

4.2.2.4 Information sharing

The sharing of information was not common in the communist era, where information was guarded closely and considered to be a way to gain power. This created an environment of introversion and suspiciousness. For a consulting firm this is a problem, as they need information in order to be able to produce good and efficient services. The information sharing within the consulting firm is furthermore critical for the firm's knowledge enhancement. The consulting firms need to be able to combine information from different consultants, departments, product areas, customers, industries, countries, etc. and find synergies between these, which makes the issue critical. From this a higher level of knowledge can be achieved. The issue on information sharing is also important from the aspect of the consulting firms' interaction with the customer. Especially many of the Russian enterprises, that are marked with the remains of the Management

Sovieticus, have difficulties in disclosing information formerly looked upon as the key to power in the enterprise and in business life, as described earlier. The enterprises might still not like the idea of having anyone caring about how they run their business. This attitude could be a major problem for a consulting firm. Between the consulting firm and the multinational client this is not a major area of concern, as the MNC's with the experience from the western market economy normally understand the idea of sharing information.

4.2.2.5 Innovation

The Russian people lack in innovative and creative thinking since neither has been encouraged previously. In addition, since caution is a characteristic that is associated with the Russian people, it is not surprising that it is easily forthcoming in the Russian society.⁷³ The Russians neither believe nor want to improve the situation by coming with opinions and ideas for change. This situation has to improve in Russian enterprises in order for these to become competitive. Increased competition means a continuous process in the enterprise to find new solutions that attract the customer by providing ever-improved products. It is now required that Russian managers are action oriented, willing to take risks, encouraging employees to be innovative and are able to build a climate in the company that stimulates open minds, creativeness and generation of ideas. For the international consulting firms the employees' ability to innovate is naturally very important. In the case of having local consultants, consulting firms might have problems in stimulating Russian consultants and their willingness to take risks and find new solutions.

4.2.2.6 Ineffectiveness and inefficiency

The Russian enterprises have to cope with new market economy's requirements for efficiency. Managers are not used to thinking about efficiency and lean production, which are new terms for them. Russian enterprises have to define their core business, what they do best, and improve this area substantially. There has to be a focus on higher quality and not, as before, on quantity of production. Outsourcing

⁷³ Puffer, S, p 306, 1996

might have to be introduced into former self-sufficient giant enterprises, in order for these to become more efficient. Another aspect of inefficiency relates to the wasting and hoarding of factors of production. Here lean production, which was a major factor towards progress for manufacturing industries all over the world has to be adhered to by the Russian enterprises, thus combining mass production with improved quality. Moreover, enterprises can no longer permit over employment, thus measures to rationalise is one solution as well as measures to encourage employees and motivate employees. Here international consulting firms might have an important task to change old ways of thinking.

4.2.2.7 Customisation

During the communist era Russian enterprises produced what they were told by the planning agencies to produce, without having to think about whether there was a need for the product or what the users thought about it. Today, these issues are very important. The enterprises have to get to know the customers and their needs and then develop a product adapted to these needs. Marketing has recently come into the minds of Russian managers, however, it is not yet deeply rooted and, in many cases, not fully understood. Going from not having to think at all about the user of the product, to an environment where marketing is needed in order to sell the products, is a big step for Russian enterprises. To treat the customer “as a king” was only a few years ago a totally unfamiliar and strange concept in Russia. In all these respects the international consulting firms can assist clients both as it concerns the theoretical and practical customer focusing.

4.2.2.8 The social role of the enterprise

The enterprise was formerly a provider of social security, where workers were guaranteed lifetime employment. Today, when more firms are privatised, this is no longer possible. Old work ethics of doing as little as possible are however, still common. Also, it might be a problem for international consulting firms to get Russian employees to think as required in the new profit driven market economy environment, promoting new values, which might be in conflict with the traditional ones in Russian society. A focus on money-based

success factors could interfere with the fundamental Russian beliefs of an equal society. This might impede the drive towards improving one's performance. Also, in the turbulent times of today social benefits are of particular importance to Russian employees.

4.2.2.9 Blurring of morals

The old system led to the principles of blurred morals among people, and dual ethics are still common. Employees use enterprise resources for their own purposes sometimes with the manager's approval, even when applying the competing business operations. The logic behind this behaviour is that everything used to be collectively owned in the communist society. Furthermore the dual ethical standard in the Russian society creates an environment where the actions taken always depend on the circumstances, which therefore makes it hard to predict Russian behaviour. For the consulting firms this means that although a process once was conducted in a certain way with good results, the next time the result might be totally different and not satisfying at all, although the conditions are the same.

Another moral aspect is the use of bribes in Russian business life. Theoretically, most Russians (66%) think that it is unethical to accept bribes.⁷⁴ However in reality, giving and accepting bribes, is a common feature of the Russian society. Bribes are still used by people to speed up or accomplish certain tasks, especially when these involve local authorities. It is important to understand that although people in general do not approve of bribe giving, the system puts an immense pressure on them to avoid this. Furthermore, the Mafia has a finger in this game, putting pressure on the enterprises with threats and blackmail. If the enterprise declares all its profit, the Mafia will demand its share of the profit, which means that the manager does not want to show the full and correct result for the enterprises. All this has to be appreciated by international consulting firms particularly in the context of providing accounting and auditing services to Russian enterprises.

⁷⁴ Kääriäinen, K, p 26, 1997

In general, moral issues, including the ones related to bribes, are also of concern to international consulting firms in the process of securing clients.

4.2.2.10 Recruiting procedures

In the communist era, it was common that it was not the most qualified persons who got the job but those related to the communist party or the enterprise managers. This is probably still the case in many Russian enterprises. Lately, a shift towards a more performance-based selection process has been noticed, but there are still no general selection practices governed by objective professional criteria, as is usually the case in Western countries. The international consulting firms might have to articulate the benefits with performance-based recruiting in order to avoid the friend-promoting procedures, which might be counter productive for a full and professional implementation of consulting services provided to the specific Russian enterprise.

4.2.2.11 The contract

If international consultants do not understand the necessity of forging good relationships with Russians, they will never succeed in writing any contracts. The contracts are not very valuable in themselves, as the only thing that is of real importance is the relationship. Therefore in order to succeed in agreeing on a contract it is important to build up a friendly relationship with the counterpart. From a western point of view this custom can appear as dishonest as the contract can be re-changed many times over. For the particularist Russians the contract signing can even be regarded with suspiciousness because they think that they might be cheated. If the Russians feel that they are not trusted, they might automatically behave in an untrustworthy way. Alternatively they may terminate their relationship with a Western business partner because that partner's precautions offend them. This issue is something that international consulting firms have to consider and balance continually.

4.2.2.12 Interpreters

In the Western business culture interpreters are supposed to be objective and neutral. But as Russians are an affective people, showing

their feelings a lot, they might have problems in this regard even as interpreters. This ought to be an issue of concern for international consulting firms, particularly when using expatriates as consultants.

4.2.2.13 Motivation

In individualistic cultures, factors of motivation could be salary rewards and promotion, for documenting high performance. This is though not always so in Russia. Individual rewards are considered something that might be against the egalitarian culture in Russia, as referred to earlier in this chapter. This issue is of relevance to international consulting firms, providing services in the field of human resources and directly in the context of designing its own reward system within its units of operations in Russia.

4.2.2.14 Performance evaluation

Job evaluation is a very important tool for setting salaries and following up the personnel's performance. This is however, not commonly used in Russia, as it may be considered as having a negative impact on personal relationships in enterprises.

Performance appraisals were unpopular during the old system. Back then, employee rewards were not tied to individual performance but to the fulfilment of the plan, and workers were given a wage regardless of their productivity. Today, performance appraisals are gaining ground in Russia, but older workers are still resistant to performance-based salaries, accustomed to the old ways as they are. This type of prevailing attitude can severely impact the effective implementation of consulting services provided.

4.2.2.15 Negotiations

In Russia, negotiations require the representation of a senior manager who has the authority and power in the enterprise. Status and authority comes with age and should be respected. When a consulting firm and a Russian enterprise meet in negotiations, this could be a problem. Consultants coming from international consulting firms are often quite young, and therefore risk not being taken seriously by the older Russian enterprise managers.

4.3 Conclusions of the chapter

In this chapter we have given a description of Russia in a historical perspective, concerning the period before, during and after the communist rule. These developments are indeed crucial to comprehend when trying to understand culture. We have found that the history to a very great extent determines how people behave. The management style that today exists in Russia is highly influenced by the characteristics of Management Sovieticus. With an ever-changing business environment a new managerial entity, the Management Transitus has developed, which converges Western market economy values with the formerly dominating Management Sovieticus values. Following these radical changes after the fall of the Soviet Union, managers, executives and administrators find themselves in a new world for which they were ill prepared, given their past economic orientation, philosophies and practices.

In the second part of this chapter we have tried to describe and illustrate the cultural characteristics of Russia and its people by applying the cultural dimensions and using our survey to indicate changes and developments over time regarding these characteristics. Lastly, we are discussing various business implications that can occur when Russian history and its specific cultural dimensions face Western values. From all this, we are able to grasp the prevailing situation that will meet international consulting firms when they undertake activities in Russia.

5 THE INTERNATIONAL CONSULTING FIRMS

In this chapter we will give a short presentation of the international consulting firms and cross-cultural consulting firms that are participating in our study. We will also describe the initial stage, when the international consulting firms first established in Russia.

The collapse of the Soviet Union and its transition into a market economy system created a potentially huge market for legal, financial and management consulting services. Multinational corporations establishing activities in Russia had generally little knowledge of the local business environment and were therefore in great need of consulting assistance. At the same time, local Russian enterprises required a lot of consulting assistance to be able to adapt their operations to the requirements of a market economy system. All this gave rise to a major in-flow of international consulting firms into Russia.⁷⁵

The initial conditions of the first consulting offices opened up in Russia were indeed difficult. The possession of a copying machine had to be cleared with the authorities, typewriters had to be registered at the Ministry of the Interior and the office phone could not support more than a few international calls per day. Another difficult task was to convince local Russian enterprises about the values of consulting services, while multinational enterprises directly accepted the assistance of the international consulting firms, as they were used to in Western countries. For Russian managers Western type of consulting services was a totally new concept and was not widely accepted, as the Russian managers had problems seeing the value of such services. The very idea of introducing international audit standards and new business processes into the aftermath of the Soviet command economy was perceived as revolutionary by many. When international consultants approached Russian business executives about providing consulting services, the reaction was often cautious and met with suspicion. The

⁷⁵ Rye, J, p 60-63, 1995

idea of paying for and taking advice was unfamiliar to the Russian managers. At the same time, Western consultants came in with the attitude of “having all the answers to the problems”.⁷⁶ It was not until later on that Russian managers appreciated that certain problems are more effectively resolved by professionals especially trained for the purpose. In order to survive in the new economic situation, many Russian companies were also in need of foreign investments, and to attract them, they had to provide investors with clear and reliable accounting information. Here, the Russian enterprises started to understand how international consulting firms could help them to adapt to market economy conditions.⁷⁷ Moreover, foreign investors needed to find the right Russian enterprises to join or to acquire and this further helped towards accepting services from international consulting firms.

A problem that occurred in the initial stage was that consulting firms rarely dedicated enough time and resources to studying the specific situation in Russia and seeing how Western managerial practices would have to be adapted to the specific requirements of the local institutional setting. Even the ones who did, were not very well equipped for counselling in the initial stage since their competence in this regard was limited.⁷⁸

*“In what other part of the world would you bring in a whole bunch of foreigners, and not care about what the locals have to say? Nowhere would it cross anyone’s mind to do anything like that. This was though the nature of the international consulting firms in the beginning, they came into Russia, but did not do anything worthwhile”.*⁷⁹

Moreover, some consultants took advantage of the local enterprises’ lack of knowledge concerning Western managerial practices and what to expect from a consulting firm. This resulted in some consulting practices earning easy money by charging high fees for poor services⁸⁰.

⁷⁶ White, D, Interview Arthur D Little, 2000

⁷⁷ Ten Years, Deloitte & Touche

⁷⁸ Faskunger, J, Sandén, U, Wiklund, M, 2000

⁷⁹ Loginova, S, Interview Arthur D Little, 2000

⁸⁰ Faskunger, J, Sandén, U, Wiklund, M, 2000

As a result, this created a bad reputation for international consulting firms acting in Russia. Because of this less successful way of entering the country, it has taken a long time to repair and improve the reputation.

Another initial problem was that many Russian enterprises could not afford expensive international consulting services. However, in many cases such services became available through help from international organisations such as the World Bank. A considerable number of consulting projects in Russia today are also sponsored by the World Bank, tendered through the Russian Privatisation Centre (RPC).

The situation has certainly improved over the years but still a lot of criticism is levelled at international consulting firms. As seen by Russians, Western consultants are much better paid in comparison with Russian consultants, even though, the Russians claim that, Western consultants do not really understand the Russian business environment and the wider social and cultural framework which govern this. As noted by the Russian Privatisation Centre (RPC), the Western consultants have less knowledge in the following areas⁸¹:

- The specific nature of the Russian business environment
- The Russian style of enterprise management and the different interests within Russian management teams
- The strong sense of responsibility from the Russian enterprise towards the local community in which they are active

Western consultants are thus sometimes regarded as being ignorant and lacking a true understanding of Russia. Also, they are sometimes too focused on increasing shareholder value, which does not always correlate with the managerial thinking in Russia. Furthermore, international consulting firms sometimes send teams of too junior expatriates that lack a recognised international background and a grasp of the industry on which they are consulting. In some cases there might be problems for Russian managers to be able to respect this team.

⁸¹ Holden, p. 34, 1998

Sometimes international consulting firms do not bother to visit their Russian industrial clients, while others would only spend half a day at a Russian plant, expecting the managers to drop everything in order to see them and share all information with them.

While the consulting firms are technically competent when focusing on “hard” aspects, this has to be combined with a more “soft” approach.⁸² Today’s consulting firms in Russia still focus mostly on “hard” issues, such as auditing and accounting. These services generate good revenues and it is relatively easy to put a price tag on these. To do the same with “softer” attributes, such as those entailing cultural aspects, is much harder to do. The question is how to assess and put a price on efforts to integrate cultural elements in the design, delivery and implementation of technical consulting services. Moreover, clients mainly ask for traditional consulting services since they often are not aware of the need for cultural issues⁸³. Consequently, there has been little pressure on and interest among consulting firms to put any emphasis on such issues.

In general, consulting services are intangible since results are hard to predict and the client can judge only in retrospect. As Lewitt said: “prospective customers who cannot experience the product in advance are asked to buy a promise...and usually do not know what they are getting until they do not get it.”⁸⁴ How a person experiences a service is a matter of culture as our preferences are influenced by this.

“A service is an activity or a series of activities in a more or less abstract way that normally, but not necessarily, happens in the interaction between the customer and the service companies’ employees and/or physical assets or products and/or systems that belong to the service supplier. They are obtainable as solutions of the customer’s problems.”⁸⁵

⁸² Holden, p. 36, 1998

⁸³ Holden, p. 36, 1998

⁸⁴ Neers, D. B, Greiner, L. E

⁸⁵ Grönroos, C, p 29, 1992

A service is a complicated phenomenon and differs from a product in many ways. The four most common differences that characterise a service are:⁸⁶

1. A service is immaterial and abstract, which means that one can not see or touch a service, which makes it hard for the customer to value it.
2. A service is an activity or a process and when the production process is over, the service will no longer exist. This implies that a service cannot be stored or be used on a later occasion.
3. The service is produced and consumed at the same time. When the customer is using the service he will also be in contact with the company's different resources, such as the personnel and equipment, which together constitute the production.
4. The customer always plays an active part in the production process of a service and is even a part of the process.

5.1 Company presentations

The Big Five international consulting firms are Arthur Andersen, Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PriceWaterhouseCoopers. These are also the dominating international consulting firms active in Russia. Other major ones are Andersen Consulting, Arthur D. Little, A.T. Kearney, Boston Consulting Group, Cap Gemini/Gemini Consulting and McKinsey. We chose to focus the study on the following international consulting firms as these had a good representation in Russia.

Arthur Andersen

Arthur Andersen was founded in 1913 and today it has more than 77 000 people that work in 84 countries. Arthur Andersen has realised uninterrupted growth, with 1999 revenues of over \$7 billion. Arthur Andersen reinvests globally over 6% of its revenues in training and development and provides more than 5 million training hours annually.

⁸⁶ Grönroos, C, p 30 1992

Arthur Andersen has services within assurance, business consulting, tax & legal and corporate finance.

Arthur Andersen has a strong presence in Russia and employs more than 500 people here. The team of Arthur Andersen experts in Russia includes expatriates from over 15 countries⁸⁷. The office in Moscow opened in 1990 and it became the first international service organisation licensed to carry out audits in the Russian Federation. Now it serves as the headquarters of the regional operations. In 1992, Arthur Andersen opened the second office in Russia in St Petersburg. Today, that office employs 70 tax, legal and audit consultants. The third Arthur Andersen office to open in Russia was in Novosibirsk in 1997. Today, over 30 professionals service the entire Siberian and Eastern Russian frontier from this office. The staff is primarily recruited from the leading university in the region. The Arthur Andersen office in Kyiv began operations in 1992 and now has more than 85 professionals. Since 1997, Arthur Andersen has been a leading provider of services to the domestic Azeri market. In its Baku office, a team of more than 20 local professionals and expatriates have been satisfying the growing demand for professional services related to exploration and development of the Caspian oil and gas fields. Arthur Andersen was also the first of the global professional consulting organisations to enter the Turkmenistan market.

Arthur D. Little

Arthur D. Little was founded 1886 by Arthur Dehon Little and is the world's first consulting firm. Today it has offices and laboratories in more than 30 countries and 3500 staff members around the world. Among Arthur D. Little's services are management consulting, technology & innovation, environment & risk management and incubation services. 1999 revenues were \$629 million, with more than 60 percent coming from outside the United States. Arthur D. Little has a presence in Czech Republic, with an office in Praha and an office in Moscow, Russia, where 12 people are employed.

⁸⁷ "Doing business in Russia", Arthur Andersen, February 2000

Deloitte & Touche Tohmatsu

The history of the firm dates back to the 19th century. Today it is present with 90 000 people in 130 countries including all the major markets in CEE. Deloitte & Touche Tohmatsu's main services are within assurance and advisory, management consulting, corporate finance and tax advice.

Deloitte & Touche CIS is the name of the Russian firm and operates as a local firm within the global organisation. Since 1990 it has been delivering services to both local and foreign companies in Russia and the CIS. It has furthermore over 200 local and expatriate professionals in the CIS, and a network of offices in Moscow, St Petersburg, Kyiv (Ukraine), Almaty (Kazakhstan) and Tbilisi (Georgia). When serving clients in CIS, resources and professional expertise of the global network of Deloitte Touche Tohmatsu is used⁸⁸.

Ernst & Young

In 1989 Ernst & Whinney merged with Arthur Young to create Ernst & Young. However, the roots of the enterprise date back to the 1890s. Today, 85 000 are employed all over the world. Ernst & Young's areas of expertise are assurance and advisory services, corporate finance, entrepreneurial services, and legal and tax advice. It has sold its Management consulting part, which today belongs to Cap Gemini Ernst & Young.

In 1989, Ernst & Young was the first of the world's leading services firms to arrive in the Commonwealth of Independent states (CIS). The firm claims to be the leading business advisor to enterprises entering and doing business in the market.⁸⁹ It has presence in Moscow and St Petersburg (Russia), Baku (Azerbaijan), Tbilisi (Georgia), Almaty and Astana (Kazakhstan), Kyiv (Ukraine) and Tashkent (Uzbekistan). Here they assist companies of all sizes, from multinationals to up-and-coming local firms.

⁸⁸ "Your business partner", Deloitte & Touche, 2000

⁸⁹ www.eycis.com, 2000-10-10

Ernst & Young is also active in promoting foreign investment in Russia. The Foreign Investment Advisory Council, a forum for the Russian Government and foreign businesses to bring about improvement in Russia's investment climate, is co-chaired by Prime Minister of the Russian Federation and Ernst & Young.

KPMG

KPMG was formed in 1987 with the merger of Peat Marwick International (PMI) and Klynveld Main Goerdeler (KMG) and their individual member firms. Today, all member firms throughout the world carry the KPMG name exclusively or include it in their national firm names. It has more than 100 000 professionals that work in 159 countries. As a global leader in transaction based services, the firm has earned Securities Data Enterprise's first-place ranking as the worlds leading mergers & acquisitions advisor for the fifth consecutive year.⁹⁰ KPMG's services are auditing and accounting, management consulting, corporate finance and tax and legal.

During the past several years, KPMG has forged a number of business alliances with some of the world's best known names in the Internet, telecommunications and software industries. One recent example is the expansion of its existing alliance with Cisco Systems Inc., in which Cisco has invested US\$1 billion in KPMG Consulting, part of the KPMG US member firm⁹¹. For the fiscal year ended 30 September 1999 KPMG International reported record revenues of US\$12.2 billion, which represents a 17 percent growth compared with the previous year⁹².

Furthermore, KPMG has invested in the Dutch intercultural management consulting firm Trompenaars Hampden-Turner (THT) with the aim of improving the business effectiveness of global organisations. THT provides solutions that reconcile cultural differences through best practice consulting, training and self-paced

⁹⁰ www.lt.kpmg.net, 2000-10-14

⁹¹ www.kpmg.com, 2000-10-14

⁹² www.kpmg.com, 2000-10-14

learning products. The firm bases its methods on the cultural dimensions developed by Fons Trompenaars, referred to in this thesis.

KPMG is represented by in total 750 consultants in three locations in Russia.⁹³ It was the first organisation to take an aggressive step in uniting national and local resources - people, ideas, products, technologies and knowledge.

McKinsey & Company

McKinsey & Company is a management consulting firm with over 4500 consultants and nearly as many supporting personnel represent more than 78 nationalities. It operates in 75 offices in 38 countries. It was founded in 1926 in the United States but today more than 60 percent of its work is conducted outside the US.

McKinsey has served clients in the Central and Eastern European region since 1991. The consultants in this area are predominantly local nationals with strong international backgrounds, but also include professionals from other countries who have extensive experience from the region. In Central and Eastern Europe, McKinsey has about 100 professional staff based in four offices, namely Budapest, Moscow, Prague and Warsaw. It also serves clients in Slovakia, Romania, Slovenia, Croatia and Lithuania. The first office in Russia was established in St Petersburg in 1993 and then moved to Moscow in 1994. Today 40 people work at this office. Clients in Russia are mainly start ups (entrepreneurs) or former government organisations and not so many multinational professionals.

McKinsey is organised in almost the same way everywhere, it is not a geographically based company but a more internationally based one. It has a unified training system for the consultants and these share knowledge and resources across borders.

⁹³ www.kpmg.ru, 2000-10-15

5.2 Intercultural consulting firms

Richard Lewis Communications

Richard D. Lewis founded Richard Lewis Communications (RLC) in 1988. The enterprise has offices in several locations around the globe including Russia. The enterprise mission is “to provide tailored training solutions for individuals and organisations to enable them to function effectively in an international environment.” The services offered are divided into three sections: Cross Cultural, Language Training, and Communication Skills. Since the services are tailored, hybrids of the services are offered as well, such as Language & Culture Courses, Presenting across Cultures, etc. RLC divides its cross-cultural expertise in seven different services; Cross Cultural Workshops/Seminars/Speeches, Cross Cultural Performance Support System (entitled Gulliver), The Cross-cultural Assessor, Language & Culture Courses, and Cross Culture Tour Game.

Furthermore, RCL state that the cultural knowledge is also applied to other disciplines such as leadership, team-building, negotiating, coaching and lobbying, which are gathered under the Communication Skills umbrella. Moreover, the enterprise offers language training in some twenty languages including Russian.

The clients of RCL range from multinational corporations, government departments, non-profit organisations, business schools, and management consulting firms to private individuals.⁹⁴

Trompenaars Hampden-Turner

Trompenaars Hampden-Turner (THT) was founded by the well-reputed interculturalist and author Dr. Fons Trompenaars in Amsterdam, the Netherlands. THT operates a widespread networked community of specialists all over the world in the field of cross-cultural management and strategy. Furthermore, they have formed an alliance with the KPMG Management Consulting, which recently has established centres of innovation for international strategy related

⁹⁴ www.crossculture.com/home.html 2000-05-27

topics. THT states that the network of consultants enables them to command the best resources for strategic intercultural management issues. There are also licensees operating in the UK, Scandinavia, Indonesia, South Africa and the USA.

The methodology used is a mapping of cultural characteristics by the seven dimensions of culture described previously in this thesis. The aim of this methodology is to recognise, respect and reconcile cultural differences. The goal of THT is to improve the global effectiveness of organisations by offering solutions that reconcile cultural differences. This is done with strategic consulting services, workshops and training programmes, publications and computer-based learning resources.⁹⁵

⁹⁵ www.7d-culture.nl 2000-10-01

6 ANALYSIS OF INTERNATIONAL CONSULTING FIRMS IN RUSSIA

We will now describe to what extent the consulting firms face the remains of the Management Sovieticus, and whether they are aware of the cultural influences on management and business life. Then we will continue to see whether this awareness or lack of it has an effect on the international consulting firms' services. Finally we look at what methods consulting firms use today in Russia.

The development towards a market-oriented economy has changed the conditions for the Russian enterprises and the people in the country. However, there were only few enterprises that immediately became efficient with the change of the economy towards a more market driven one, and most enterprises still strive to cope with the change. For Western multinational enterprises it is hard to penetrate the Russian system, since it is so different historically, economically, socially and culturally.

For international consulting firms this change has been a learning process. Where they have to find out how to conduct their business in Russia with regard to the ongoing change of the economic environment and business climate. It is an economy that is not completely in the post-industrial age. Productivity and computerisation are low and relationships to family and close friends in business life are still important. "Russia is 100 years behind the Western part of the world economically but not culturally" as one of the respondents said. This statement is maybe too strong, but indicates the economic condition in the country. It is a very young market economy and Russia is now trying to develop it towards a market economy in 20 years, a process that has taken the western countries 200 years of development. This is the situation that the international consulting firms have to deal with. However, most of the enterprises that have been in Russia for a long time have gained a good understanding of how to operate on the market. Because Russia is in transition towards market economy, and therefore at another stage of development than the western market

economies, the problems tend to be more basic here. However, the levels of sophistication change every year that people become more familiar with the terms of market economy.

Primarily we will look at what the international consulting firms have to deal with internally considering their Russian and international employees. This is a question of managing different nationalities and cultures within the consulting firm.

Secondly, the consulting firms have to deal with their clients, which is an external issue. The clients consist of both Russian and multinational enterprises. When looking at the multinational clients, we will focus on the ones having Western market economy values and standards. Hence, when referring to multinational clients or MNCs, we mean these enterprises. The way the international consulting firm deals with their clients depends on what category, from the two mentioned, that the client belongs to.

The main task for the international consulting firm is to get the multinational clients to understand the business environment and how they need to suit business activities to the Russian market. This is necessary since many of the multinational clients bring their people and other resources from abroad, but do not consider the cultural setting in the country. Therefore, the international consulting firms have to transfer their knowledge and understanding within this area to the client in an external interaction. This interaction concerns both the Russian clients as well as Western MNC's, where the interaction is characterised by each part within their own management style environment, as shown in the figure below. Concerning the Russian clients, the main challenge for the consulting firm is to adapt the consulting services to the way Russian enterprises work. In other words, the consulting service has to be adapted to the local business environment.

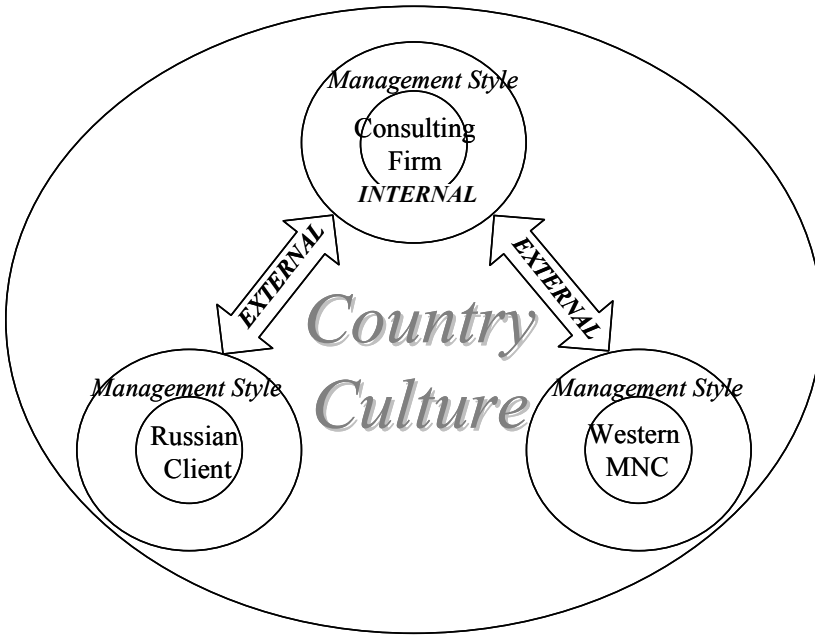


Figure 5.1 Internal and external interaction

Source: Own

Both these aspects regard how well the consulting firms are really able to interact with, know and understand the market in order to give professional help to Russian and multinational clients. From our interviews conducted, our respondents have tend to focus and relate either to internal issues or to their Russian clients. Therefore, the amount of gathered material mainly deals with these two groups.

6.1 Characteristics of the specific cultural setting in Russia

6.1.1 Relationships

Among the most important concerns mentioned by the consulting firms are relationships. In Russia there has always been an importance for building up relationships. Without the right relationships nothing is

easily achieved. However, a relationship is not created overnight- it takes a long time to establish. Relationships are a matter of getting to know each other, and through that, of creating interplay that benefits both parties and which has to be considered in a long term perspective. The further development of the interaction process is dependent on how the parties perceive the relation and the experiences from it. In Russia, trust and engagement are decisive ingredients in the relationship.

For many of the consulting firms the building of relationships was hard in the beginning. Not many Russian enterprises were familiar with the consulting services and what the consultants wanted from them, as can be referred to in chapter five. Therefore, the consulting firms had some initial problems approaching the Russian clients. The client did not want to let anyone get insight into the enterprise if there was no trust built up. This was however quite understandable, as the Russian managers were used to carefully watching all information in the company and not trusting anyone. During communist rule, inspections of the enterprises were made by inspectors representing the state. These inspections were not done in order to get the managers to make the right decisions, but instead to give the state the insight into the enterprises that they wanted.⁹⁶ The state wanted to have control over everything that the enterprises were doing and checked that they were following the plans. The network of relationships, *blat*, which still is visible in the country, formerly had the function of protecting one another from these inspectors. Relationships functioned as means of avoiding risk and uncertainty in business life, and still do to a great extent. Therefore many of the Russian enterprises are reluctant to disclose all information to ‘outsiders’ like consultants⁹⁷.

In addition, information sharing with intermediaries and among enterprises in the same industry is important, both for the international consulting firms themselves and for their clients. Carolyn Hovorka at Ernst & Young says that they have created a special foreign investors advisory council, which is put together twice a year and consists of the

⁹⁶ Ivlev, A, Interview Ernst & Young, 2000

⁹⁷ Ivlev, A, Interview Ernst & Young, 2000

Prime Minister, various government ministries and the top foreign investors in the country. This is done in order to help enterprises to get the right connections in the business life and with the government. This does not only benefit the chance to build relationships, but also to get the opportunity to inform the government what the enterprises themselves think are necessary improvements in the Russian economic and business climate.

It seems that all the international consulting firms were of the opinion that initially it was hard to build up relationships with Russian enterprise managers, as these did not trust representatives from consulting firms and neither saw any benefits from the relationship. In order to deal with the situation, the international consulting firms had to learn it the Russian way, which according to Richard Glasspool at KPMG, means to literally build relationships starting with a middle manager, that can introduce you to a senior manager, and so forth. He furthermore emphasises that a relationship is a slightly different thing in Russia than in the West, as it has to be built on deep trust between the parties. Relationships can furthermore be said to be the key for doing business in Russia.

Vladim Larine at McKinsey notes that from a Russian point of view, Westerners focus too much on business, while for Russians there are other important matters apart from business life⁹⁸.

“Western managers are very business oriented, whilst Russians want to play chess and get together in the sauna.”⁹⁹

The meeting between the parties is indeed important in a relationship that has to be characterised by mutual trust, satisfaction and an open exchange of information. This implies an on-going process of identifying and creating new value with individual clients and involves engaging in longer-term relationships with customers and delivering value to them.¹⁰⁰ Deirdre White at Arthur D Little means that their

⁹⁸ Larine, V, Interview McKinsey, 2000

⁹⁹ Larine, V, Interview McKinsey, 2000

¹⁰⁰ Cheng & Ho, p 205, 1999

consultants regularly go to the client and spend time there. By this the client becomes more convinced that the consulting firm is more committed to developing a suitable solution to their problem and a long term relationship with them. Being on the scene also means that the consultants can maintain good communication with the client, which otherwise would be hard.

Spending time together with the customer outside work is important in Russia. Russians are diffuse people, which mean that they bring their personal life to work and discuss it with their colleagues, as described in the theoretical chapter. It is natural to share opinions and problems together with friends, and this is many times what is needed in business life. Most of the international consulting firms meant that initially a general discussion about everyday-life is needed in order to find out about the real problems in the enterprise. Only after friendly talks can the real discussion get started. Therefore, extorting the client for information if he or she does not feel that he trusts you as a friend is doomed to fail.

“You have to meet your Russian customer face to face, get together with him, drink a few drinks, build trust and a relationship between you and the customer.”¹⁰¹

“In Russia, work very much includes personal life and you talk with your colleagues about your problems. In America work is supposed to exclude personal life.”¹⁰²

This is something that the international consulting firms need to know about, otherwise they will not get things done. To get the information they want, they also need to create a deep, trustworthy relationship with all clients and other parties.

The international consulting firms help their multinational clients to build up relationships in Russia. For Western MNC's coming to Russia, this is especially crucial as very often they are not aware of the

¹⁰¹ White, D, Interview Arthur D Little, 2000

¹⁰² Bubnova, N, Interview Deloitte & Touche, 2000

importance of relationships for doing business in the country and are not used to this relationship-focused environment. If they do not consider this, they will make considerable mistakes in their market entry strategy that will consequently cost them a lot of money.

“They have to start up quite slow, building relationships, finding the right partner, and not put money into the market before they can start making profit here. It takes some time so to speak.”¹⁰³

In this manner, most of the consulting firms help their clients in areas of relationship building by finding the right partner and networks of contacts. Here the consulting firm must be able to match the client with the suitable contacts, in business life as well as relevant authorities. If this is not achieved, all processes will be very slow and permission and contracts etc, will take time to realise.

One dilemma that sometimes faces the consulting business is the relatively high turnover rate of employees. When the employees leave, some long-term relationships might disappear with them. It is therefore important for the international consulting firms to try to keep their personnel and all the relationships that they might have built up. Some of the consulting firms seem to be aware of this:

“We try to maintain the relationships, but it is hard. However, we think that this is improving as more Russians become Partners of Ernst & Young, and thus stay longer. The share of foreign consultants that come and go is decreasing.”¹⁰⁴

6.1.1.1 Negotiations

Another area where relationships are highly crucial is in negotiations. Many of the consulting firms noted that this process takes time as you first might have to hold a general discussion with your Russian counterpart before getting down to negotiations. Kerstin Söderbaum at PriceWaterhouseCoopers states that:

¹⁰³ Hovorka, C, Interview Ernst & Young, 2000

¹⁰⁴ Hovorka, C, Interview Ernst & Young, 2000

“It is very hard to do business with the Russians since they can change their opinions very quickly. Although the negotiation has been going on for some time, the Russian negotiator can all of a sudden be a total stranger to what you previously talked about in the negotiations, and in addition be totally unaware of what you earlier had agreed upon.”¹⁰⁵

This means that the negotiation process sometimes might have to start all over again. She continues to say that the Russians can even send a totally new person as a negotiator to a negotiation that has been going on for some time. This is very different from the Western style of negotiating, where you go through lengthy discussions and build up an understanding between the participants that hopefully can find a solution that suits all parties. Here the negotiation-game is more about tiring each other out.

Another aspect to consider in Russian negotiations is that the Russian counterpart will be reluctant to negotiate with someone that has a lower status. Therefore, as Russia is an ascriptive country, as described in previous chapter, the way in which the international consulting firm approaches a person in Russia is very important for the relationship building. This means that the consultants have to know a lot about their client before they visit him or her so that no mistakes will endanger the valuable relationship. As one of the interviewees described the Russians:

“They would rather forgive your lack of knowledge in certain fields than arrogance and inability to behave correctly.”¹⁰⁶

6.1.1.2 Contracts

The ability to develop good relationships is necessary in the process of writing contracts. The contract is not valuable in itself, but it is rather the relationship that decides whether an agreement has been made between two parties. This is a typical characteristic for Russia, which is a traditional particularistic country, where friendships count more

¹⁰⁵ Söderbaum, K, Interview PriceWaterhouseCoopers, 2000

¹⁰⁶ Propov, A, Interview Arthur D Little, 2000

than rules. In fact the contract writing has almost no value at all, and the Russian client or business partner can suddenly withdraw or change the contract. Gerald Gaige from Arthur Andersen means that this springs from the suspiciousness of the Russians, who think they will be cheated on in the business game, which makes it difficult for international consulting firms and MNC's to deal with them. Instead, this could be avoided through a close relationship where trust and commitment is adhered. Naturally, this will have an immense impact on all of the international consulting firms' activities in Russia.

*"A contract does not mean anything at all. If this is dishonesty or something else really does not matter, this is the way things work."*¹⁰⁷

6.1.2 Information sharing

6.1.2.1 Withholding of information

The heritage of the Communist rule has created an environment where sharing information is rare, as described in chapter four. All of the consulting firms had problems in the initial stage to pursue the Russian enterprises to share information with them. As described above, the international consulting firms first and foremost needed to build relationships with the Russian clients, before any other actions could be taken. In addition, the tradition of not sharing information discussed in the previous chapter, was a major obstacle for the international consulting firms to make progress in their client relationship building. To regard information as power, and thus keeping it to oneself, still remains in the minds of the Russian managers. This comes with the high uncertainty avoidance among Russians, as there is a risk in sharing information because that might jeopardise a person's power position. The information sharing could also be related to Russia's ascriptive culture. To keep important information was a way of protecting titles and increasing the authority. However, in our survey it was revealed that there is a tendency towards a more achievement

¹⁰⁷ Söderbaum, K, InterviewPriceWaterhouseCoopers, 2000

culture, as a result of the transition of the country, and this will probably increase the information sharing in the future.

6.1.2.2 Transparency

However, with an increasing openness in the country, came the need for adapting to international standards, which meant that the Russian enterprises had to share their information with the consulting firms if they were to get the transparency they wanted. Natalia Bubnova at Deloitte & Touche and Carolyn Hovorka at Ernst & Young mean that without the transparency the consulting firms give their clients, they are not able to attract foreign investors. This implies that Russian enterprises have to share information with the consulting firms. Still, one should know that many Russian enterprises have one transparent part, which is audited by one of the international consulting firms and this part is shown to foreign investors. Simultaneously, another part of the Russian enterprise still works as in the old days, with no transparency.

Gerald Gaige at Arthur Andersen means though that Russian clients are still reluctant to share information, as consulting firms often require confidential information for services like auditing and accounting. Furthermore, he notes that there is always some tension between government and the consulting business because much of the confidential information the auditors get from the clients, the government would like to have. Since getting the right information from the customers is a fundamental need for the international consulting firms, this is a critical area for their success.

6.1.3 Decision making

The heritage from the communist rule is evident when it concerns decision making in Russian enterprises and the power distance is very high. Russian enterprises are still characterised by a highly bureaucratic and authoritarian nature. Senior managers still take all decisions and hold the main responsibility in the enterprise, without much influence from others. Roger Munnings at KPMG described Russia as:

“A bureaucracy greater than we are used to in the west.”¹⁰⁸

The international consulting firms have to be aware of the highly bureaucratic and authoritarian structure of their Russian client enterprises. It is crucial to detect the person in power in the enterprise, since this is the person that has to be approached first if something should be done. Since Russian business environment is founded on a wide network of relationships between enterprises, it can be complicated to detect the “spider in the web”. Therefore, before the key decision maker can be found, relationships might have to be developed with a number of other persons in lower positions, which might seem time consuming, but still is necessary for international consulting firms in the Russian business environment. Deirdre White at Arthur D Little notes that:

“Although we work with a group from the client enterprise, we have to approach the CEO throughout the whole process, since he decides everything in the Russian enterprise.”¹⁰⁹

Per Sundberg from KPMG Sweden, means that also the international consulting firms have a very authoritarian organisational structure in Russia. He further notes that this is necessary in order to get the Russians to work hard.

“You have to be persistent and ‘bossy’. If you want things to get done you have to say that you want it ready the next morning, otherwise it will not be done. What the partner says is the law.”¹¹⁰

Kerstin Söderbaum from PriceWaterhouseCoopers is of the same opinion, expressing that the Russians are very hard to manage, as the manager has to give precise orders and directions to the employees. Since individual efforts never were appreciated nor encouraged in the Soviet enterprises, the employees felt no responsibility nor wanted to

¹⁰⁸ Munnings, R, Interview KPMG, 2000

¹⁰⁹ White, D, Interview Arthur D Little, 2000

¹¹⁰ Sundberg, P, Interview KPMG Sweden, 2000

improve their own performance. There are still remains of this behaviour in Russian enterprises, which according to Kerstin Söderbaum, can be avoided by having clear, defined work tasks for all employees, making them aware of what they are expected to perform in combination with a powerful, authoritarian business manager. These structured and defined enforcements form highly authoritarian leadership and can be referred to the regulative structures described in the theoretical chapter, as structures that determine people's behaviour.

“The Russians seem to like that someone chases them and carefully watches what they do, then they work very well. But as soon as the manager leaves the enterprise for one week, they stop working”¹¹¹.

6.1.4 Initiatives & Innovation

The authoritarian structure of enterprises, as the heritage from the communist rule, has also created an environment where the Russian people always wait for orders before they take any actions. Despite the fact that they know what should be done next, they do not take any own initiatives to do it. One reason for this is the fear of being responsible for actions, especially if something goes wrong. Therefore, people tend to avoid taking initiatives, thus securing their own position in the enterprise. This also comes from previous collectivist thinking in the country, where Russians are not used to standing out from the group. However, there is a shift going on, both between generations with old and young managers, and in the business environment, between the old traditional industries that hold a prominent heritage from the management Sovieticus, described in the previous chapter, and the new more entrepreneurial industries such as e-business and IT¹¹². However, Roger Munnings at KPMG means that although the young educated people in Russia are indeed very intelligent, they still lack experience of taking responsibility. Alexei Khodiakov at McKinsey says that the reason for Russians' resistance to taking initiatives is because in former times there were no incentives for new development from upper management of enterprises or from the state.

¹¹¹ Söderbaum, K, Interview PriceWaterhouseCoopers, 2000

¹¹² Glasspool, Interview KPMG, 2000

It came from the fact that the person taking the initiative would get the same amount of money whether he or she created something or not. To do something on top of the normal duties would mean conflicts and therefore there was no interest in creating new things. Furthermore, Khodiakov means that this still happens in many companies, especially outside Moscow. However, many new companies have been influenced by foreign business culture where the individuals in the enterprise are encouraged to take initiatives in their work to a greater extent today.

As a result of the above, lack of innovation and development in enterprises was a prominent character in the Russian organisation. Furthermore, action orientation and willingness to take risk, were qualities that were discouraged and even punished during the Soviet system, but they are today highly critical for achieving success¹¹³. With the market economy comes also the need to find new solutions, make improvements and innovations, something that the Russian enterprise managers are not accustomed to yet.

Traditionally, Western culture has had a tendency to focus on self-reliance, risk-taking, and decentralised authority, whereas the culture of Russia has been characterised more by dependence on government mandates, risk avoidance, and a centralised bureaucracy.¹¹⁴ This can furthermore be illustrated in our survey where there were clear tendencies that in the past, Russia had an authority system that hindered individual initiatives. The respondents still experience this today but believe the future will show less of this system.

Considering the international consulting firms' activities, the lack of initiatives and habit of strictly following orders, can imply that Russian consultants will simply follow orders from upper management, although they might know that the suggested solution given is not suitable according to the cultural setting in the country. This is dangerous for the consulting firms, since many in the upper management and especially the partners are Westerners, and therefore,

¹¹³ Longenecker, v37, n6, p 35-39, 1994

¹¹⁴ Dimiter Kiriazov, Sherry E. Sullivan and Howard S. 2000.

do not have the same sensitiveness for what suits the Russian business environment¹¹⁵. These employees need to be trained to take initiatives and state their own opinions so that these kinds of mistakes can be avoided. Within KPMG, Roger Munning has noted that the personnel tend to push the decisions very high up in the hierarchy. To deal with this, KPMG has tried to teach the Russian staff to take more decisions on their own levels.

The Russian market is changing very fast and the consultants need to be flexible and creative. Alexander Ivlev at Ernst & Young means that consultants need to have some intuition about the customer and the market and be able to think innovatively. This is needed in order to keep up with the developments in the market, and also in order to forecast future developments and the direction the customer enterprise needs to take.

6.1.5 Inefficiency

When the Soviet Union was dissolved and the planned economy was abolished, enterprises were exposed to the market economy forces previously unknown for Russian business managers. During the initial years of transition, described in previous chapter, many enterprises had to learn how to become efficient and face competition, which was a difficult process that still is far from being accomplished. Russian enterprises for a long time did not have to think about why and for whom they produced. The only thing they knew was that they were following orders. In addition, as the state wanted to provide every individual with work, the result was that three persons could execute a task that was hardly enough to keep one person occupied. Therefore, the employees often performed nothing at their work place, of the reason was that they did not have to. Instead they sat down and had lively discussions about their living situation and everyday life. Natalia Bubnova at Deloitte & Touche means that Russians even today often bring their personal life to work and often start lengthy discussions with other employees, and are therefore hampering the efficiency in the enterprise.

¹¹⁵ Hovorka, C, Interview Ernst& Young, 2000

Although the Soviet system was inefficient, it provided everybody with work, which was highly appreciated by the Russians. However, facing the western market economy traits of efficiency and competitiveness, the Russian enterprises have difficulties in adapting fast enough to the new circumstances on the market. The enterprises under the communist rule did not have to worry about efficiency, as they had no direct competition. Today, efficiency is a matter of surviving, compelling Russian enterprises to rationalise factors of production. Natalia Bubnova at Deloitte & Touche means furthermore that the Western way cannot penetrate the Russian system totally, since it is so different and holds a heavy heritage from the Soviet Union.

The inefficient business environment also created a development of a sub-market, where the enterprises could make profits from the inefficient procedures that were not allowed in the communist system. Following the plan, Russian enterprises produced goods that were not demanded by the market and instead created a surplus of goods. As the state only was interested in the input of the enterprise, not the output, the enterprise could maximise the consumption, and hide the surplus in order to gain on the ineffective measurements and sell these products on the sub-market. Although this behaviour seems totally absurd and irrational in western market economy terms, the Russian enterprises in fact optimised their own results through this method.

Corruption is still a highly present feature in both business and government. In order to run their businesses, managers have to grease the palms of both government officials, to get the permits and licences they want, and criminal figures in the Mafia, to protect the business. The criminal element in Russia has even made the enterprises form associations to protect themselves and be able to deal with the organised crime in the country.¹¹⁶

Kerstin Söderbaum at PriceWaterhouse Coopers, who has a thorough experience of the Russian business environment, means that operating in Russia means that you face the criminal side of society all the time.

¹¹⁶ Puffer, S, p 312, 1996

The worst thing, according to her, is that the government people are the “bad guys”. Compared to the United States, where government people and Mafia are separated from each other, these groups are intertwined in Russia, as she expresses it. Therefore, it is almost impossible to do business without having to deal in some way with the Mafia with bribes etc, either direct or indirect.

This criminal side of Russia remains both from the Management Sovieticus, but also springs from the cultural dimensions in Russia. Russia’s inflicted collectivism diminished with the collapse of the Soviet Union and the mix of its traditional particularism and new-found individualism may create an “economic gangsterism”¹¹⁷, with self-interested gangs preying on one another. In such circumstances order can come only from power imposed from above. According to Hampden–Turner, the abrupt westernisation does not appear to have served Russia well because its culture has to develop continuously over a long time period instead of quickly trying to imitate Western standards. This is a process that should take some time and not be too abrupt for the people and the business environment.¹¹⁸

6.1.6 Strategic management and entrepreneurship

Many of the management practices that served business enterprises well under the communist rule, today have to struggle hard to be able to face the forces of market economy. Studies have found Russian managers lacking skills in such critical areas such as marketing, pricing, cost accounting, distribution, quality control, planning and customer service¹¹⁹.

Except from being action oriented and willing to take risks, the Russian managers also have to adhere to characteristics that were not required before, such as strategic and competitive thinking, and creativeness, in order to enhance the future developments of enterprises. In addition, they have to be effective leaders, communicators, planners and organisers. Traditionally, these fields

¹¹⁷ Hampden-Turner, C, p 360-361, 2000

¹¹⁸ Hampden-Turner, C, p 360-361, 2000

¹¹⁹ Longenecker, 1994

were the responsibilities and decision areas of the highest leaders of the state, resulting in Russian enterprise managers not having to think strategically but only to follow the orders that came from the state.

Important to be aware of is that the problems facing Russian enterprise managers are not foreign or suppressing to managers of the West. Most enterprises in the world struggle with financial challenges, loss of customers, inefficiency, and work force problems on an ongoing basis. These are also common problems in a western market economy. What makes the situation different in Russia is the fact that most Russian managers have little or no experience in responding to such pressure. Enterprises are being bombarded by many of these problems simultaneously, and to an extreme degree. In addition, they have been isolated from Western market economy influences for such a long time and have not as well-developed resources to cope with the new environment as many of the Western market economy countries¹²⁰.

To increase the chances of organisational survival, managers have to gain new and different skills to provide leadership. Personal contacts and connections have always been important organisational resources in Russia, and still are. It was in this area that managers under the communist rule had their most important function. But to succeed as a Russian manager today, only connections are not enough. They must in addition have excellent problem-solving skills and be able to respond to competitors and meet the ever-expanding expectations of the customers¹²¹. However, the direct applying of Western models are often difficult, impossible or even uneconomical. As Liuhto puts it "Business management should follow the line of development in the country's business environment instead of parroting Western managerial styles"¹²².

Subsequently, managerial transformation proves to be difficult, not only when it comes to accepting the principles of change, but also when it comes to making the necessary adjustments in the enterprises

¹²⁰ Longenecker, 1994

¹²¹ Longenecker 1994

¹²² Liuhto, K, p 35, 1993

and communities. Nevertheless, it is important for Russian managers to obtain the know-how of foreign enterprises in order to participate efficiently in foreign trade and within the international networks¹²³.

Experiences from organisational change in the West strongly suggest that managers in Russia face a monumental struggle to change their attitudes, behaviour and knowledge about the market¹²⁴. Change is a difficult process, even under ideal situations. And in an environment that is highly unstable, change can even seem as something negative, and instead people want to have the old stability and predictability back. However, Longenecker and Popovski mean that the Russian managers are highly motivated to learn how to function in the post-communist market place, but that trial and error learning alone is a costly and inadequate strategy. Therefore they rather need training, guidance and support in the process of adapting to the new market economy driven system. This is where the international consulting firms can come in with their experience from the market economy to support and train the Russian managers in areas such as strategic thinking and risk taking. Natalia Bubnova at Deloitte & Touche means that they help their clients in structuring their business and making their operations more efficient, which is especially needed in the old state owned industries. Another area where they provide assistance is in strategic planning, where the Russian manager is behind his Western counterpart. However, Bubnova means that the western market economy values cannot penetrate this system enough since it is so different and the habits goes back so many years in the Russian history.

*“The communism is in the past but at the same time it is in the present as it influences the way enterprises are structured and managed. This is a system that is in different stages of development.”*¹²⁵

Still, with reform, private enterprises have arisen and along with them more capable managers who are often the proprietors of these

¹²³ Liuhto, K, 1993

¹²⁴ Longenecker, C.O, Popovski, S, 1994

¹²⁵ Bubnova, N, Deloitte & Touche Tohmasu, Interview, 2000

enterprises. These managers are very different from directors of former state-owned enterprises. Usually they have more of the Western manager's features, i.e. more professional education, entrepreneurial orientation, quickness, flexibility, and market orientation. At the same time, there are skills that the Russian managers possess to a larger degree than their Western counterparts. Particularly, the developing of personal business networks, which was essential in order to be able to cope with the deficiencies of state planning.

All the respondents were of the opinion that the younger generations of Russians are more open to the market economy developments in the country. Furthermore, these young Russians consider this development as something good that the country has to go through. Still there is a majority of people that are of the opinion that it was better before, and that the change does not bring anything good. Alexei Khodiakov at McKinsey notes that many new Russian enterprises have been influenced by foreign business culture, and that these have another management that supports new ideas. He further means that it is not these companies that now have problems, but it is rather the former state owned enterprises that need advice on how to be more efficient and improve quality and management.

The international consulting firms have a difficult task in this matter, means Kerstin Söderbaum at PriceWaterhouse Coopers. She notes further that it is very hard to change peoples' opinions about how to run a business and to change their point of view, since they have been living in a communist society for so long. The Russian manager is used to a certain way of thinking and has therefore not the same business framework as a Western manager. Moreover, she means that it is impossible to talk about the effects of a market economy with someone who does not know what you are talking about.

*"We don't employ Russians above the age of 40, they are too destroyed by the old system."*¹²⁶

¹²⁶ Söderbaum, K. Interview PriceWaterhouse Coopers, 2000

In an article from McKinsey, Micky Obermayer is of the same opinion and notes that ultimately Russia's problems will not be resolved until a new generation is in power. The break with the past has been very gradual and will continue to be.

*"The bad news is that many people who were in power in the old days remain in power. In Russia the old adage holds true: You cannot teach old dogs to sit. Until the last bureaucrat dies, we're really not going to see any fundamental changes in this country."*¹²⁷

The country's prospects of surviving in a market economy will depend on the success of its managers in reconciling the communist style industrial organisation carried from the past with the current free market demands. Hence, Russian managers have to learn to be proactive, think strategically, and to see the future demand of the market. However, this is a far from easy task to deal with.

*"Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. The objective is to enlarge the scope of your advantage, which can only happen at someone else's expense."*¹²⁸

This statement shows what strategy is about, however, as it is considered as very bad to earn something for yourself at the expense of someone else in Russia, the above explanation of strategy is totally against what the Russians have learned. As described in the previous chapter, this belief is deeply rooted in people's minds. Business is still seen as something dishonest and bad, which originates from the collectivist society, where no one was supposed to be better than anyone else. With this background, it is not hard to understand why it is difficult for the Russian enterprise managers to think strategically and to make their enterprise compete with others on the market. Even though the Russian enterprises today are exposed to high competition,

¹²⁷ McKinsey Report from the CEO, 2000

¹²⁸ Henderson, B.D, p 139-143, 1989

the process of change in this matter will take a long time, or as Micky Obermayer says:

*“There will be no fast turnaround for this country. The most frustrating thing is that Russia’s rate of change will be driven by a new generation of leadership. That takes time, and we are by nature impatient. But one cannot be impatient here.”*¹²⁹

6.2 The cultural difference from the Consulting firm’s point of view

In this part we want to examine whether the international consulting firms are aware of the cultural characteristics of the Russian market and how they look upon the demand for services aiming to help clients to cope with this.

6.2.1 Awareness

In general there is a need for people to be enlightened and be more aware of the importance of cultural understanding. When working in another country, one needs to sit down and reflect over these matters and how they influence people’s behaviour. However, with regard to the discussion of cognitive structures in the theoretical chapter, these exist in all institutions in society, and even within enterprises. These are ways in which people behave and think, that also determine how they perceive their environment and interact with other persons. Thus, when observing another environment and another culture than their own, the observation will be dependent on the individual’s background and way of thinking. From our study we have found that people tend to look for information confirming their own opinions rather than for information against it. To observe and reflect, one’s own culture as well as the way in which it is influenced by another cultural setting, is therefore a highly difficult task, requiring a lot from the observer. As a Westerner coming to Russia, it will certainly take some time to understand the Russians and get used to the country. All respondents agreed that understanding culture is a learning process, which is

¹²⁹ McKinsey Report from the CEO, 2000

something more than just a three-day intensive course training. A training course would create awareness, but not really teach how to do business in Russia, which is a complicated market. According to our respondents, the best way to really learn about Russia and Russian behaviour is to be present and learn from experience of the culture. Therefore none of the consulting firms have any training programs for the expatriates coming over to Russia. Roger Munnings at KPMG had one way of expressing it: "Awareness you get when you move around between different KPMG offices in the world. If you can handle other management consulting services, such as tax and legal for example, you can normally handle intercultural issues". However, according to our opinion, tax and legal are very technical services, where the technical knowledge is crucial. Naturally, it is possible to learn these different areas by moving around in the company. Concerning culture we believe that the knowledge you need here differs from the above and cannot be learned in the same way as the knowledge needed in technical services, which is more concrete and follows certain frames and structures. In the case of a technical service, you can more easily track any mistakes made and see why they occur, whilst cultural issues are more abstract and not so easy to measure, which thus makes the learning process harder. Furthermore, we think the personalities could differ depending whether you are a technically oriented or a culturally oriented person. For us there does not seem to be any natural correlation between the two, and therefore, we do not agree with Roger Munnings in the above statement. We think that even if a person is skilled in many technical areas, it does not necessarily mean that he or she is good at handling different cultural traits. Instead we mean that a consultant needs to be skilled in both the technical service and in sensing the cultural traits of the market, and to see how the two influence each other.

The answers to whether the international consulting firms meet any cultural related problems on the Russian market turned out to be different depending on the nationality and position of the respondent. Overall, the Russians do not see that there are any problems at all, whilst most of the Western expatriates are well aware of the differences and the problems that could occur because of that. The

reason for this is probably that it is harder for the Russians to see any cultural differences, as they are operating in their own country. It is certainly easier to discover differences for someone coming to Russia from another business environment. That it is not so easy to reflect over cultural differences in the home country could be seen below, as there were many different ways Russian respondents perceived and interpreted culture:

“There are not so many differences, business are the same everywhere. The situation depends on the people and the personalities, and it is not a cultural issue.”¹³⁰

“I don’t think that cultural issues show any major differences. I would call it more personal related problems in that case. I don’t see any cultural related problems.”¹³¹

“There could be clashes between enterprises from western countries and Russia in e.g. a joint venture and when it comes to negotiations, but that are not cultural reasons but business related problems.”¹³²

To say that business is the same everywhere would seem to reflect a lack of cultural understanding, since country culture varies enormously among countries. The main transaction between countries might be similar or the same, but the way people do business and interact vary to a great extent.

This proves that there are existing problems in the interaction between different cultures, however, people denominate it in different ways. We believe it is necessary to understand the background of the problem and not just be satisfied by identifying that there is a problem. Instead it is important to have the willingness to thoroughly detect what factors cause the problem. We mean that whether you consider it to be a personal- or business related problem, you have to understand that

¹³⁰ Larine, V, Interview McKinsey, 2000

¹³¹ Ivlev, A, Interview Ernst & Young, 2000

¹³² Khodiakov, A, Interview McKinsey, 2000

different persons represents different cultures and therefore behave in different ways, which they do due to their cultural belonging. Our opinion is that whether it is called business related problems or personal related problems, they all derive from culture, as culture influences how people behave. Therefore, international consulting firms have to try to find out where the problem comes from when they consult in Russia. They have to be willing to find out what characterises the Russian person and the cultural environment that forms the individuals, which implies a thorough understanding of the historic development as well as the situation the people are in today.

The international consulting firms are aware of the existing problems in the interaction between Russian and Western business cultures. However, we have found that the awareness and understanding of where the problems come from and what causes them, is not deep enough according to our observations. Appreciating the existence of the cultural problems alone is not enough but rather needs understanding, action and handling from the international consulting firm. Consultants have to make sure not only to look for information that support a certain way of thinking, but to think objectively and have insight to detect where the problem comes from by gathering all information that can bring a more complex perspective to the issue.

The international consulting firms meant that culturally related problems tend to occur between the international consulting firm and the client due to different expectations and misunderstandings in the interaction between the two. These misunderstandings could take place in both if the client was a Russian or a Western enterprise active in Russia. Quite often opinions could differ between the parties, but this problem is more common if the client is a Russian enterprise, according to the respondents at the consulting firms.

It is therefore of importance that both parts have discussed the contract through and know what to await from the cooperation with each other. The next challenge will be the design of the service and adapting it to the Russian market. Here the consulting firm's knowledge and ability to adapt is tested. Moreover, the implementation part is critical, as the

consulting firm has to live up to and realise the expectations in this situation. We will come back to this issue later on in the analysis.

Roger Munnings at KPMG means that it is especially hard to manage expectations from Russian clients in the auditing services. The different expectations probably come with the Russian enterprise's unfamiliarity with the auditing service as they do not know what to expect. In order to live up to these expectations the international consulting firms need a discussion early on in the process about what the auditing service will bring the client.

Gerald Gaige at Arthur Andersen on the contrary says that auditing is the service where the least of the culturally related differences occur. In auditing the problems tend to be more technical related, with differences between Russian accounting and international accounting. He means that tax is the area where most cultural problems could occur, because of a huge number of variables starting with the tax law, which is full of conflicts all through the process until the implementation of the law, which is made on regional basis. Even within Moscow there are different tax divisions, depending where you are located. These divisions do not operate in the same way and they have different ideas about the law. A client could be treated in one way by one division in town and in a totally different way for the same issue by another division in town. Corporate finances, real estate, business consulting, and evaluation could also have some peculiarities involved but not on the same scale as the tax.

Cultural problems that further were noted by the international consulting firms were concerning recruitment procedures and performance evaluations which differed in the former Soviet Union. Back then, one could ignore the most qualified person, in favour of friends and relatives, managers were appointed more on their political merits than their professional ones. This is because Russians are ascriptive people, as described in previous chapter, which influences Russian enterprises. Although much has changed, there are visible signs of the past in several areas. Lately, a shift towards a more performance-based selection has been noticed, but there are still no

general selection practices governed by objective professional criteria, as is usually the case in Western countries. Among international consulting firms, the performance-oriented approach among the employees is commonly used. This approach does not suit the Russian market with Russian employees, as they are not used to this kind of measurement in order to perform well and hence might interfere with the effectiveness of the consulting firm.

6.2.2 The market

Most Western respondents we talked to agree that there might be a future market for services aiming to cope with cultural related issues in Russia.

*“I believe there is a huge market for these sorts of issues. I think that the culture is only one aspect of this, but a major aspect here in Russia. But you need all aspects of it and in this matter, it is really the ability of one business to talk to another business.”*¹³³

One Russian respondent does not see that cultural support would be a service the client would ask the international consulting firms for, as he means that “it has nothing to do with business but is more related to psychologists, if someone has personal problems in the relationships”.¹³⁴ We consider this statement reveals a lack in the understanding of the impact culture has on business and everyday life, and that in all kinds of international transactions an understanding for the country’s culture is needed. According to our opinion, cultures’ impact on business cannot be excluded, as business is people and people is culture. The above statement is a common way of looking upon culture, as an element that has nothing to do with either business or any connections to economic activities¹³⁵. However, we mean that culture is very important to consider in business life. For all kinds of international transactions there needs to be an understanding for the

¹³³ Roger Munnings, Interview KPMG, 2000

¹³⁴ Larine, V, Interview McKinsey, 2000

¹³⁵ Ramström, J, p 30, 1999

country's culture, rules and norms, because they influence both everyday life and the business life of the Russian people. As described in the theoretical chapter, culture also affects other institutions within the country. Therefore, considering the Russian culture, economic life cannot be segregated from life as a whole.¹³⁶

None of the bigger international consulting firms think that they will offer any cultural support services in the future, as they do not have any specialists within the area. Ernst & Young used to have a department specialising in Human Resources, trying to help people within the firm to understand issues like cultural differences and state of salaries. However, Carolyn Hovorka means that they do not see the need for it within the company any longer, but more a need in general for the clients. Richard Glasspool at KPMG was of the opinion that they do not have services aimed at coping specifically with cultural differences. However, he means that KPMG as a consulting firm translates between the Western and Russian culture as intercultural translators. Furthermore, he means that it is hard to show these soft attributes for the clients.

Kerstin Söderbaum at PricewaterhouseCoopers means that one major problem is to get the client aware of the importance of cultural understanding, the demand has to come from the customer. She believes that not until this is done, will the big international consulting firms start to develop their skills in this area. Furthermore, she notes that it is hard to show the value for the customer since cultural understanding is abstract and hard to evaluate. The things that cannot be measured will neither get the attention needed, she explains. Söderbaum continues to say that it was the same procedure with human capital a couple of years ago. Enterprises did not understand the value in their employees' knowledge, the human capital, and therefore they did not believe in investing in the human capital. Today, it is a fact that human capital and knowledge are highly valuable in enterprises. Therefore, Söderbaum means that the same process is

¹³⁶ Koopman, Albert p 97, 1991

going on today with culture, people have just not yet realised the value of cultural understanding.

6.3 The cultural impact on the consulting firm's activities

We will now see how the specific cultural setting in Russia influences the consulting firms' activities by discussing the effectiveness of the consulting firms from the aspect of service design, delivery and implementation.

6.3.1 Adaptation with regard to design, delivery and implementation in Russia

6.3.1.1 General considerations

When a multinational enterprise enters the Russian market it has to consider the specific cultural and institutional setting in the country. An international consulting firm and its services will also be affected by the prevailing cultural and business environment in the country. Hence, it is important for international firms to find a balance between adapting the product or service to the specific market, at the same time as they have to use a certain kind of standardisation in order to make profits. The dilemma for a consulting firm will thus be how much customisation versus standardisation is possible for a technical consulting service in order to be effective on the Russian market.

The international consulting firms seems to become more adapted today than they were in their initial years. This is partly the result of the shift from expatriates to Russians as employees in the consulting firms. The Russians naturally are more familiar with the market than expatriates, and therefore know best how to adapt the services to fit. However, this is no guarantee for having adapted services as the consulting firms originally follow global standards. More adapted services are also the result of more demanding clients. The Russian clients want solutions that are of use to them, and therefore these solutions need to be adapted to the present business environment, which might not mean the most effective solution seen from a global

perspective. The same counts for the multinational clients, or at least the ones that have realised the need for specially designed services and solutions suiting the Russian market. The consulting firms' Russian customer base has increased in the past years, which can be another indication that the international consulting firms have begun to adapt their services to better fit the local environment and the Russian enterprises, making the clients more satisfied.

Not all of the consulting firms would agree on the following statement made by a respondent at McKinsey:

“We have very standardised services. As a consulting firm we are a bit like Coca-Cola, as we are standardised and use the same resources everywhere and give the best of our company everywhere. Often I can use knowledge that was created by our people but in some other place, both in developed or in developing countries. Without our common resources and knowledge, we could not get the economies of scale. If we were local, we would be more isolated and consequently not as effective as we are now.”¹³⁷

Contrary to the statement above, we mean that international consulting firms will not be able to successfully deliver services if they do not take the local market into consideration and adapt the services to these characteristics. Moreover, it seems as if the statement above considers effectiveness as the ability to deliver many reports, thus, focusing on quantity. Instead we would say that effectiveness has more to do with the quality of the service, and whether the receiver is able to use it effectively. The effectiveness of the service will therefore not be proven until the client is using the service, according to our opinion.

Moreover, we are of the opinion that services cannot be evaluated and designed in the same way as products. Services have to be adapted so that the buyer can use them in a satisfying way. Considering the product, it is easier to standardise, not saying that all products can be

¹³⁷ Interview McKinsey, 2000

standardised. Services are fairly difficult to standardise, as the circumstances for service delivery differ widely between countries, when most services are performed in direct relation to local customers¹³⁸. Therefore service is more dependent on culture than a product. The service encounter furthermore implies a person-to-person relationship, which thus necessitates an understanding of how to interact with a person from the country in focus. Crucial in this aspect is knowledge of the culture specific business behaviour, which determines how people perceive the service.

The majority of the consulting firms we met, meant that they try to become local firms, but at the same time they are moving towards a global structure and an increased integration on the global level. These are two tendencies developing simultaneously, where one is to become as local as possible and have local partners and experts, serve local customers and replace all expatriates with local personnel. At the same time, the other tendency is to try to become more and more integrated as a global firm and gain from the global resources. However, we fully agree with Gerald Gaige at Arthur Andersen, when he expresses the situation in the following way:

*“We could not survive if we could not respond to the local conditions. Especially consulting services are really sensitive to culture and they have to be adapted.”*¹³⁹

This statement proves the importance of considering the local cultural setting in the country where operations are undertaken. We have found that international consulting firms’ services are especially sensitive to culture, since these can be experienced and perceived differently depending on who the receiver is, and therefore they have to be adapted to the local business environment. How an individual perceives the service will depend on the background and personality of that person, which in turn springs from the cultural belonging.

Therefore, it is hard to bring in totally standardised services to Russia, but at the same time that is what normally is most profitable and gives

¹³⁸ Usunier, J-C, p, 242-252, 1996

¹³⁹ Gaige, G, Interview Arthur Andersen, 2000

economies of scale. However, we are of the opinion that fully standardised services will not be profitable on the Russian market, as the local characteristics necessitate an adapted solution. It is important to find a balance between the two. Normally the diagnostic tools are easier to standardise, but e.g. design and implementation are more customised parts of a service. The consulting firm has to deliver a product that the customer is satisfied with, standardised or not, which requires understanding of the market.

Considering adaptation or standardisation, we believe that one of the approaches does not necessarily mean that the other one has to be excluded. At the same time as you are using your global resources, you have to take the local environment into consideration. The consulting firms really need to find the middle way, which is the glocalised way. As Percy Barnevik at ABB once stated “think global, act local”¹⁴⁰, which is the fundamental idea of strong local presence at the same time as the offices work across borders to gain economies of scale. In this way the international consulting firms could bring their clients the benefits from the global resources and at the same time adapt to the client’s local business environment, regarding the design, delivery and implementation of the service.

We will now describe more in detail how the international consulting firms handle and balance the design, delivery and implementation of the consulting services.

6.3.1.2 Design

According to Svetlana Loginova at Arthur D Little the consulting services differ in Russia, compared to how they are designed in West. In the West consultants use a lot of written information, which does not work in Russia.

¹⁴⁰ www.abb.com, 2000-11-01

“We see a lot of consultants coming here with their textbook approaches, which does not work here. For example, the Western very well accepted consultant language does not work here. You have to be able to present your opinions in a way that makes sense for your clients. You have to carefully customise to each individual client. Each time we attack different problems and therefore need different approaches.”¹⁴¹

In this aspect the consulting firm has to design the service to fit the clients’ specific needs. As we described earlier, the international consulting firms mainly deal with two types of clients, the Russian enterprise and the MNCs. The consulting firm has to sense, detect and specify the client’s resources and capabilities. For the Russian client this has to be done with special regard to the extent to which the client is familiar with the market economy concepts. The Russian clients could furthermore be of two different kinds, either the new “modern” entrepreneurial enterprises or the former state owned enterprises that are very much influenced by the Management Sovieticus, described in chapter four. It is necessary for the consulting firm to detect what sort of Russian client they are consulting. Considering the multinational client, the international consulting firms need an idea of whether the client really understands the special Russian business environment, as it can be hard to really understand the actions and procedures that need to be taken on the Russian market.

As mentioned above, we believe that if the service is carefully designed to suit the individual client’s needs and conditions, the client will be able to understand how to optimally use the service and thus be more satisfied with the solution. Without the right design, the service will most probably not be effective in the Russian business environment.

¹⁴¹ Loginova, S, Interview Arthur D Little, 2000

6.3.1.3 Delivery and Implementation

Even though a consulting firm has developed tailor-made solutions and a very thorough service for a client, a problem could occur when delivering and implementing this. It is important that the consulting firm supports the clients to run the solutions themselves. If successfully done, the client will be able to derive the value from the service the consulting firm has developed. Of course it also depends on what kind of service it is, as e.g. tax return does not need to be implemented.

In the past, some international consulting firms were not very good at following up results from the services provided to customers. From the consultants' own framework and understanding of the market economy concepts, they developed a solution for the client's problem, believing it was the ultimate answer. However, in many cases the solution did not fit neither the client's enterprise or the environment surrounding it in practice. Another common mistake was to simply deliver the solution to the client that very often resulted in many unimplemented solutions, as the client did not understand how the service was to be realised and implemented into the enterprise's processes. Therefore, a lot of money was spent on consulting advice that was never used. However, this has somewhat changed today, as the Russian customers have got much higher expectations and some of the consulting firms have realised the need of adaptation to the Russian market.

The implementation is normally a part of the consulting firms' projects. One way of doing this is to train the clients' employees all through the project, and make them participate in the development of the solution. This is especially important in the case when dealing with Russian client. Many consulting firms have their clients for a long time, which enables the consulting firms to follow them through many years and thus get continuity in the work. Svetlana Loginova at Arthur D Little states that they send out consultants to the clients to really make sure that everything that the client has learned in seminars held by the consulting firm is implemented to function in the client enterprise. At the same time, the consultants give training and consulting, and are there to make sure that the client gets results. We

believe that the active cooperation and follow-up is a very effective method to make sure that both parties are happy in the end. At McKinsey they work together in a mixed team, with representatives from McKinsey and the client enterprise, Alexei Khodiakov explains. This gives McKinsey better access to the client's internal data, and the possibility to train the client's personnel during the time. Subsequently, when McKinsey leaves the client the people in this enterprise are able to continue the work.

Some international consulting firms use a global standard for delivery of consulting services, in order to structure the delivery of them. This furthermore provides a framework that can guide and assist clients who seek to understand and successfully implement business solutions suggested by international consulting firms, that may range from minor changes to total transformation. We believe that this method probably works well in the West where the market economy is well developed and the clients know what to expect. The guidelines to implement the consulting firms' suggested solutions could to some extent be standardised, as the Western enterprises have somewhat the same conditions in a market economy. Concerning the Russian market, which is very specific, a standardised concept of how to implement the solution in the enterprise does not function, as the market and enterprise conditions vary to such a great extent and therefore need customised adapted solutions. This counts for both MNC's and Russian clients operating on the Russian market.

All the consulting firms that we met have some kind of follow up or implementation when they believe it is necessary or when the client specifically asks for it. The main problem in this aspect is that clients do not always see the benefits from the follow up or do not have enough money to pay for it. Kerstin Söderbaum at PriceWaterhouseCoopers notes that it is a combination of these two factors, together with the inability to understand the importance and value of the consulting firms' assistance in supporting the implementation of the product, that undermine the effectiveness of the consulting services. Since the Russian clients are not fully equipped to cope with the market economy forces, the international consulting firm

has to make sure that the product is adapted to fit with the client's resources and capabilities, as mentioned before, so that the product can be implemented in the enterprise and work successfully. Again, this is unfortunately often not the case. The result in this case is a mismatch and waste of the client's time and money, since the client does not understand the content and the value of the consulting firms' advice. One can say that this does not matter for the consulting firm, as they anyhow have got their money from the client and thus have made a good deal. However, if it turns out that the client cannot use the product delivered, the client will naturally be disappointed and unsatisfied and thus not come back to the same consulting firm again. This concerns in particular Russian clients, as they might not be able to use the solution since it is not adapted to the enterprise or the business environment. Furthermore, if the consulting firm does not transfer knowledge to its multinational client, about how to make the solution useful in the specific Russian business environment, there is a risk that the service will be useless, although the enterprise can understand the content of it. To avoid this, we believe that co-operation and understanding are needed between the international consulting firm and the client.

“If the customer itself does not realise the need of longer co-operation, the consulting firm has to make the client understand the value and benefits that can be reached of longer co-operation with the consulting firm and not only look at it as a costly process.”¹⁴²

Finding satisfying solutions is highly important in order to win trust and commitment of the clients, especially the Russians as they for a long time have been sceptical of the credibility of the consulting services and the use of them. As mentioned before, the effectiveness will not be seen until the service is implemented in the client enterprise. We would therefore say that implementation is really proving whether the service is effective or not and it is thus highly

¹⁴² Söderbaum, K, Interview PriceWaterhouse Coopers, 2000

crucial for the international consulting firms to understand the clients' conditions.

Thus, the implementation and not only the delivery of the product is critical for the success of the consulting firms. However, in order to implement the service successfully, it needs to be designed in the right way, which makes the design, delivery and implementation interdependent for each other's success.

6.4 Methods used today in order to understand and cope with cultural setting

We will now describe what methods are used today by the international consulting firms in order to deal with the Russian business environment and the cultural traits that they can face in this matter.

6.4.1 Consultant characteristics

When deciding upon whether a consultant has the right characteristics, a classification has to be made between the general characteristics required by any consultant no matter where in the world, and the characteristics required by a consultant active in Russia. We believe that in the latter case, the requirements are substantially higher than in the former, since it includes more specific characteristics and skills.

One general characteristic that is required by a consultant, placed anywhere in the world, are the technical and analytical skills. In Russia a good consultant furthermore needs to be flexible and able to forecast the developments of an ever-changing environment. All respondents agreed that a consultant must be open minded in order to understand different behaviour and different cultures. Especially important on a market like Russia, where all businesses are built up around different relationships, is the ability to forge these. Another general characteristic brought up, was that consultants in Russia need to be humble and respectful, or they will not get anything from the Russian client. Moreover, important for every consultant is to have the

sensitiveness to understand the client, and insight into the client's Russian business climate, the industry of the client and the issues the client faces, as these are critical to comprehend.

In this aspect, we would like to highlight the differences in understanding a client in a Western market economy environment, and a client operating in the Russian business environment. In the former, the business environment is familiar for the multinational client, who has an understanding of the market economy concepts. As mentioned above, the requirements for a good effective consultant are enormous in the case of Russia, since it requires a thorough understanding of the special Russian business environment. This understanding has to be derived through a comprehension of the historical and economic developments, and the present process of transition, and how these traits influence enterprises operating in this environment. Alexei Khodiakov at McKinsey mentioned a business education from abroad as an important criterion for the Russian consultants, in order for them to relate the Russian business framework to the market economy framework. At the same time, the expatriates in the consulting firm, must have been in Russia long enough to understand the Russian culture and business environment. Simultaneously, even more important is to understand the difficulties with which the Russian enterprise managers have to perform totally different to what they did before.

As previously referred to in the theoretical chapter, cognitive structure influences the way in which individuals can perceive situations in an institutional environment. Since we regard culture as ingrained in all institutions, we believe that this is most important to understand.

When searching for information about a specific topic, people tend to unconsciously look for information that supports their own opinions, not seeing the information that is against it, as mentioned earlier. In this manner, it is necessary to develop a sensitivity to objectively assess the business environment in order to avoid bias and misinterpretations. Therefore, we mean that it is hard to avoid subjective observations concerning cultural traits, as a person often already has an opinion in the field. The consultants thus have to be able

to observe and reflect these issues, which requires insight, and from this build an understanding.

Moreover, it is argued that only technical skills, IQ and analytical reasoning do not help a consultant going abroad. It is more a question of how a consultant empathises with the people he or she interacts with and how effectively the consultant interacts based on that empathy. The crucial part is to balance globalisation with the fact that local knowledge is the key to local success. There are consulting firms that look for emotional competencies in candidates, including the ability to generate trust, understand others, leverage diversity, foster communication and build bonds.¹⁴³ We believe that emotionally, intelligence could be a much better indicator of a consultant's success on the Russian market, than traditional indicators, such as IQ and experience. We have concluded from our study that emotional intelligence includes the common sense attributes self-awareness, self regulation, motivation and social skills like empathy, and are perhaps the most crucial characteristics to have for a consultant active in Russia. Emotional insight therefore creates an ability to reflect.

We can relate this to what Ronald Morgan at Richard Lewis Communications (RLC) calls cultural capital. "When people talk about human capital, we talk about cultural capital or even human cultural capital". He believes that it is crucial to emphasise the cultural knowledge that a person has and value this as a resource in the company. For this matter, RLC has developed a cross cultural assessor-CCA, which is a very practical, hands-on test measuring how much a person knows about cultural differences. We believe that this tool can help the consulting firms to appreciate the cultural knowledge in the firm, and through that become more effective in the Russian market.

Furthermore, emotional intelligence is a very crucial characteristic for a consultant to have, as relationships are so important in the Russian business life. But at the same time the consultant has to have technical skills that he can relate to different business solutions. Therefore, the

¹⁴³ Williamsson E, The Wall Street Journal Europe, Poland

consultant has to be able to integrate the cultural knowledge with the technical skills and understand how these two factors influence each other and can be combined to find the best solution for the client.

6.4.1.1 Customer understanding and Market understanding

Customisation is really a new phenomenon for Russian enterprises that are used to producing products not even demanded. Customer choice and satisfying the customer, were never first priorities in the communist business environment. Here the consulting firms have a very big role in assisting their Russian clients to find the customer needs. However, most of the respondents mean that customers are becoming more important for the Russian enterprise, which has to do with foreign influences and the opening up of the market. The Russian enterprises have started to realise that if the customers are not satisfied, they will go somewhere else and nowadays customers are treated better in all occasions. The customers are today much stronger than they were a couple of years ago.¹⁴⁴ In this matter the multinational enterprise has an advantage as it is used to detecting the customer habits and needs, and designs the product to fit those characters. Nevertheless, the multinational enterprise might not truly understand the needs of the Russian customer.

Concerning the multinational clients, the international consulting firm must furthermore create a good relationship with them in an open understanding dialogue. The consulting firm must understand in what way to communicate what they know considering the characteristics of the Russian business environment and in addition be able to relate this to the multinational clients' operations. In this matter the international consulting firm is the crucial link and translator of the specific market environment transferred to the multinational client.

It is also essential for the consulting firm to understand the need of their Russian client, who in turn might only use the consulting service without really knowing the value of it. The consulting firm must really

¹⁴⁴ Hovorka, C, Interview Ernst & Young, 2000

understand what the other part wants, even though there will be a lot of other settings and cultural differences to understand.

“You have to be careful with only having a standard package for this market, because the client might not understand the service then when it is not tailored made. You ought to understand what the Russian client needs, otherwise you will never sell anything on this market.”¹⁴⁵

As mentioned above, at the same time as it is crucial for the consulting firms to understand their clients, it is also important that they are able to transfer their knowledge to them. This is however nothing that seems to be of priority according to the respondents we talked to. The transferring of knowledge is more an informal process, when the clients ask something specific concerning the culture, either professionally or just out of pure curiosity. Carol Hovorka at Ernst & Young means that cultural knowledge transferring is not really necessary if the client is Russian, as there are mostly Russian consultants that work with these customers. Gerald Gaige means that the information within the consulting firm is not directly transferred to the clients but that it is rather the service, which is a result of the information and knowledge, that is transferred.

“The customers will trust Arthur Andersen upon learning all new information and therefore they are just happy to get the product and not have to learn everything themselves. We do not transfer the information to our customers, we transfer the product that complies to our customers and their situations. This is what they pay for.”¹⁴⁶

However, we are of the opinion that it is indeed necessary for the international consulting firms to transfer their knowledge, as this will improve the implementation and usage of the consulting firm's solution. Getting a product without understanding how to use it will not be a good qualitative, effective product.

¹⁴⁵ Gaige, G, Interview Arthur Andersen 2000

¹⁴⁶ Gaige, G, Interview Arthur Andersen 2000

6.4.1.2 Local personnel and information sharing

There are certain methods used by the international consulting firms when they operate on the Russian market. First of all, the consulting firms in our study use local personnel to a high extent in the delivery of the service because they are the ones really knowing the Russian culture and behaviour. Roger Munnings at KPMG means that their company strength is that they see the Russian staff as the key to success, since only Russians will know the true culture of Russia. However, we believe that even though Russians understand the Russian culture in itself, they also need to understand how the culture and themselves have been influenced by the specific Russian history. They need to reflect over their own culture and understand its impact on the international consulting firm and its services, which is very difficult though, as described earlier. Another reason for using local personnel is that they are better at building relationships and possess a better understanding of e.g. the legislation in Russia, which is very complicated even for the Russians themselves. However, once again, we believe that using local personnel is not the only solution in order to integrate culture into the technical consulting services. The Russian employees are still influenced by the Management Sovieticus system and could have problems to adapt to the international consulting firm's way of working. According to Per Sundberg at KPMG, the local personnel often have the technical expertise needed, however they are not always accustomed to the role of consulting. They ought to understand Western values and standards and must be able to relate to a market economy system.

There are differences between the consulting firms concerning to what extent and how they use local personnel, but all of the firms in the study are increasing the share of Russian employees. Previously, most international consulting firms consisted of 50-50 Russians and expatriates, or even higher percentage expatriates. However, today's international consulting firms have about 80 percentage Russians and 20 percentage expatriates.

“We have a policy of building a Russian practice in Russia for Russians. Many Russians have achieved a partner state position within the company and they are now taking over the management positions.”¹⁴⁷

The benefits from combining expatriates and Russians are that they can help each other to reach a better understanding. The Russians can share their knowledge about the Russian business environment, the enterprises and the Russian people's behaviour. The expatriates can share their experience from a market economy business environment. Even though the Russian consultants normally have some experience abroad, there might be problems, as they have problems in integrating their knowledge derived from the market economy with the Russian business environment. Roger Munnings at KPMG means that they have a group of Western managers that are training the local personnel in a Western way of working.

“In the relationship between the expatriates and the Russians the knowledge is transferred and therefore you need closeness. Here you have the real challenge and the establishment of understanding between the groups is absolutely critical. The Russians must understand the value of bringing the services into the market and then gain access to the knowledge of KPMG the our expatriates must understand the Russian business environment.”¹⁴⁸

There might be a problem though to get the people within the company to share knowledge and information with each other. Concerning Russian consultants, this issue can be even harder, as these are carrying the remains of the Management Sovieticus, as described in chapter four, where information sharing was definitely not encouraged or used in business life. Even though many of the consultants belong to the new generation, these remains could be found, however, our survey indicates that the trend is going towards more sharing of information. In order to learn something and understand each other, there must be

¹⁴⁷ Gaige, G, Interview Arthur Andersen 2000

¹⁴⁸ Glasspool, Interview KPMG, 2000

openness between the parts. In addition, a critical issue is that all employees should have an understanding of why information sharing is so important and what everyone could gain from this.

“You need to create a vision about how business should be defined in the future, so that both expatriates and Russians can see the meaning of working together. In order to succeed with this we have to create an atmosphere of trust, progress, clarity, and fairness. People should know exactly what they are doing and why they are doing it. The most critical part is to create trust and this is up to the leadership and management.”¹⁴⁹

This is a demanding process but absolutely critical if the firms want to survive. “Getting to know a culture and all its dimensions is an ongoing process for all of us”, as Carolyn Hovorka at Ernst & Young expresses it.

To a high extent, the issues for information sharing concern the international consulting firms’ own internal climate. All the respondents mean that they have very good information sharing in the company, both on a local and global level. Efforts have been taken in developing various Intranets, where a group of people put together and process information into a data base so the personnel can store and get information from previous projects. The external net that goes worldwide is another source of information. This is a good way of putting together all the global knowledge of a firm. The consultant can gain knowledge from other consultant’s experience from similar markets, clients or industries. Carol Hovorka says that Ernst & Young put information together in the marketing department, based on the employees’ proposals and proposal developments, which consists of the critical knowledge about the Russian market held in the firm. This is similar to a global database, but is more locally adapted. This is a good example of how to solve the information issue, however, it might be that the personnel do not use this kind of information. Therefore it is, once again, critical that the employees understand the use of

¹⁴⁹ Munnings, R, Interview KPMG, 2000

knowledge sharing and are trained in using the different information systems.

“Knowledge development and development of the people is the success factor for a firm and the most important thing in the future for each consulting company.”¹⁵⁰

On the highest level in the consulting firms, partners within the company discuss projects with each other and exchange information based on experience. Some of the respondents use a knowledge management system, which aims to collect the competencies within the individual firm.

6.4.1.3 Teamwork and interaction with the client

Among the consultants, it seems like information sharing mostly takes place in the different project teams. The group managers are the key people for bringing the best out of people in the consulting firms and creating successful teams and as a consequence, this is a critical issue for the management level. As the Russians have no tradition in taking initiatives and coming with new ideas this could cause a hindrance in the consulting firms' teamwork building. Even though Russians are used to belonging to and working in groups, coming from the old collectivistic society, they might not be used to working in groups in the most effective way concerning information sharing and initiative taking.

Natalia Bubnova at Deloitte & Touche, means that they put across department teams together, combining persons from various departments and various service lines, with various specialities for each project. This enables them to provide various services for the same project, by combining different consultant's skills, which in addition, is more valuable for the client. To have teamwork and support interactions is valuable internally but also externally.

¹⁵⁰ Ivlev, A, Interview Ernst & Young 2000

A big step to take for the consulting firm is to make especially the Russian client aware of and understand the consulting services. One solution is to get the client involved in the consulting work is by creating teams consisting of representatives from both sides where better interactions can take place. Svetlana Loginova at Arthur D Little means that by working side by side with the client, the consulting firm could get the perception of how fast the client grasps the concepts or how fast it becomes the client's own concepts. One method used by Arthur D Little is to employ 1-3 people with marketing and economic skills in each city where they have a client enterprise, which they call "Contact persons". These people work alongside of the team from the consulting company, and are constantly present in the client enterprise in order to create closeness and trust. The consultant team still goes to the customer, but not every day. This method adds value to Arthur D Little, in terms of a deeper knowledge of the client and the industry since the "Contact persons" are able to penetrate the client company deeper than a consultant team would be able to for the same amount of money. Also important in this aspect is that when the "Contact persons" are present at the client enterprise, they will hear the gossip in the company, which is critical for coming up with a good solution. The customer will in the end get an optimal solution and become more satisfied, as Arthur D Little is able to customise the product to better fit to the client's specific needs and conditions.

In addition, the client's perception of what the consulting form can do for the client is more positive when the "Contact persons" are present. Svetlana Loginova says that by this the client gets more convinced and sees that Arthur D Little is more committed to developing a suitable solution to their problem. As many of the clients are of the opinion that a consulting firm cannot do anything for them if they are not in place in the enterprise, this is an important aspect of the service.

KPMG has another solution for working together with the client. Due to some language problems it could be hard for an international consultant to explain properly for a Russian person and make sure what is discussed is understood, according to Richard Glasspool. The ideas and implementation could then be totally wrong and because of

this KPMG always sends a two-person team to the clients, in order to avoid misunderstandings. To overcome the language barrier and reach a good communication are of importance for the consulting firm in order to find the best solution for the client.

All consulting firms use Russian employees to a high extent because they talk the Russian language and can talk with the client in a better way. This is very important in the teamwork with the customer. Alexei Khodiakov at McKinsey means that prerequisites for the Russian market is a thorough cultural understanding and fluency in the Russian language and that the language comes with the understanding of the country and being here.

Normally international consulting firms have expatriates that are in need of interpreters, as they do not know the Russian language. As most of the consulting firms' bigger clients are Russian the interpreters play a big role in the interactions and negotiations. In the Western business culture interpreters are supposed to be objective and neutral. However, as the Russians are affective people, as described in previously chapter, they might have problems being objective and neutral. Therefore it is very important for the expatriate to build up a good relationship with the translator on a personal level, so they can trust and understand each other well.

“The translator is very important, you have to have a personnel translator that knows you and that you trust. We all have our favourite interpreters.”¹⁵¹

McKinsey also use team building with representatives from the consulting firm and the client, to get a suitable solution. This gives McKinsey access to the client's internal data at the same time as they can train the client's employees during the project, according to Alexei Khodiakov. Through this the clients will be able to continue the work by themselves.

¹⁵¹ Munnings, R, Interview KPMG, 2000

It seems as if the Russian clients are harder to get to work effectively in teams due to their problems of sharing information and coming up with innovative ideas. That they are used to group belongings does not mean that they are working in teams in the most efficient way. Thus, the Russian client has to be approached in the right way and a close relationship has to be created that can benefit the exchange between the different parties, thus reaching the best solution. As for the multinational client they are more aware and used to the tradition of information sharing, and team building might therefore be an easier task.

7 CONCLUSIONS- FACTORS CRITICAL FOR SUCCESS IN RUSSIA

This chapter aims to integrate the findings from our study in order to answer our main problem and fulfil the purpose. We present our conclusions drawn from the work by answering our sub problems and main problem and continue to give recommendations for international consulting firms operating in Russia, followed by areas for future research.

7.1 Conclusions

What are the characteristics of the specific cultural setting in Russia, and what impact have these on the management styles of enterprises undertaking business activities in Russia?

To enhance the effectiveness of international consulting services in Russia, the fundamental point of departure is to gain a thorough understanding of what characterises the business environment in the country. The specific cultural setting in Russia can be derived from the heritage of the social, historical, and economic background in the country. We believe that culture is ingrained in all rules, norms, habits and values, which therefore influence both everyday life and the business life of the Russian people. From our study we can see that the Russian culture is indeed very specific. The Russian business environment is so different, both for the Russians themselves since they are confronted with the forces of market economy in an environment unlike anything they have experienced before; and for the MNC's since they are entering an economy in transition. What was once an artificially stable and predictable environment is now highly unstable and unpredictable. The main conclusion of this study is that country culture has a major impact on business life and consequently, that the ability to succeed in the Russian market is greatly dependent

on knowledge within this area. Therefore, in all kinds of international transactions, an understanding of the country's culture is needed.

The Management Sovieticus system is now changing as Russia tries to move forward towards applying a market economy system. The transition from planned to market economy has been a turbulent and demanding process for the country and the people within it, and this process is far from over. We have also found that the business environment is now characterised by a shift between generations. The older generation is very much influenced by the past, and the new younger generation carry the past at the same time as they are becoming more influenced by traits of western market economy. Although the younger generation is more entrepreneurial and market economy oriented, Russia is far from a fully functioning market economy, as people do not change their fundamental behaviour so rapidly. Thus, we believe the break with the past will be gradual and the turnaround slow.

Cultural traits are deeply rooted and have a direct impact on the international consulting firms' Russian clients and how they behave. With regard to the multinational clients, they must in turn understand and know the cultural setting, to operate on the Russian market. Given the cultural traits of Russia and the legacy of Management Sovieticus, there are many specific business implications, which a consulting firm active in Russia has to pay attention to:

Personal relationships

Within the Russian business environment, personal relationships are of vital importance when undertaking business in Russia, as they are intertwined within the Russian business life. Relationships characterise every action taken by a Russian enterprise or MNC in the country, since nothing can be achieved without them. In the Russian business environment, relationships are lasting, while other matters are in the process of continuous change. In the relationships, we believe that trust and commitment are two crucial ingredients needed in order to establish good relationships.

Withholding of information

We found that, in order to be effective, it is necessary for management to give strong encouragement to information sharing, as this issue has been neglected for a long time. For international consulting firms to be able to optimise and integrate their knowledge and in order to design, deliver, and implement services which are as effective as possible, the role of information sharing must be emphasised.

Authoritarian dictatorship, which leads to lack of innovations

The management style in Russia has been, and still is, very authoritarian with little influence from the employees, who do nothing but follow orders, taking no initiative and making no decisions. The manager holds all responsibility to get things right according to the local market needs and requirements, which is a very big task to deal with. We believe that in order to be effective, the decisions need to be pushed further down the hierarchy, integrating and motivating especially the Russian employees to take responsibility and their own initiatives.

Lack of strategic management

Managers need to be accustomed to western market economy terms, such as strategic thinking, efficiency, competitiveness, demand and supply, risk taking and customer orientation. The Management Transitus, referred to in previous chapters, is influenced by both the former Management Sovieticus and the Western market economy management style, and is in a process of continuous change to fit with the local market conditions in Russia. Therefore, the managers' skills need to be gradually adapted to suit the development of the business environment in Russia.

To what extent and how do the international consulting firms appreciate cultural differences between the Western and the Russian business environments and how does this affect the activities of the international consulting firms?

We believe that in general, consulting services are especially sensitive to culture, as services can be experienced and perceived differently depending on who the receiver is. Therefore services have to be adapted to the local business environment. How an individual perceives the services will depend on his or her background and personality, which in turn spring from the cultural roots of the individual.

We have found that cultural differences determine the effectiveness with which the international consulting firms are able to interact with their multinational and Russian clients. We believe that in this matter the consulting firm needs the skill to interact with and understand both the Russian and the multinational client and their specific needs because of the differences between them. We think that in this matter it is most important to have a mix of nationalities in the international consulting firm in order to provide the best designed solution. If the international consulting firms do not consider the cultural setting in Russia, the clients cannot use the solutions provided, as they fit neither the client enterprise itself nor the local business environment. Consulting firms have to adapt the service not only to the market conditions but also to the resources and capabilities held by the client. As the Russian business environment is very specific, the delivery, design and implementation of services therefore have to be carefully adapted to the receiver, in order for the service to be effective. This implies a thorough understanding of the cultural setting and its implications for business life. Most of the international consulting firms follow a global structure and framework in their services.

We have found that consulting services that are not adapted to the local market environment or to the actors that are operating on the Russian market will not be optimally effective. The international consulting

firms in the survey seem to be aware that cultural problems exist in business life but they do not notice the influence that culture in effect has on their technical services. At the same time, most of them are aware of the need of local adaptation of the services, although it seems as if they do not take into consideration the local cultural traits that characterise the market. We believe that international consulting firms often appreciate culture, but at the same time, they do not include the cultural impact in an effective way in their services. Accordingly we believe that improvements can be made in the design, delivery and implementation of the services.

We are of the opinion that an international consulting firm could gain competitive advantages when considering the cultural impact on the services. We have found that most of the respondents mean that the culture's impact on the services is going to gain bigger attention in the future, "just not right now". However, there is still a shortage in the support given to clients, since none of the international consulting firms give any support aiming to help their clients to cope with cultural traits. From this, we believe that there is a danger in waiting too long, thus letting the competitors realise the advantage in advance, and the clients might go somewhere else since the provided services are not satisfying. As we believe that the cultural area will grow in the future following the increasingly globalised world, it is important for the consulting firms to consider culture's impact on business and thus having the ability to gain a competitive advantage in this aspect.

We noticed a difference, depending on whether we interviewed a person on consultant level or on an upper management level. Upper level managers seemed to have a better understanding of cultural difficulties in Russia. Another difference was whether the person interviewed was Russian or with a Western background. The Western persons seemed to be more aware of the cultural problems and how they had impact on the business activities in Russia. The Russian persons interviewed naturally work in their own country, which makes it harder to see what problems can occur in their own environment. However, the crucial part here for the consulting firms is to spread the knowledge and awareness that the upper managers might have further down the organisation to include all individuals of the consulting firm.

It is of no use if only the upper managers are aware of and understand the different culture problems if this knowledge is not transferred to all members within the company.

If international consulting firms are considering the cultural setting, how are their services adapted in order to fit with the specific cultural setting in Russia?

The design of the services has to be done in a way that it suits not only the client's needs, but also the conditions and market understanding held by the client. Here we mean that the consulting firm needs to sense their Russian clients' stage of development towards market economy standards, which can differ a lot depending on whether it is a former state owned company or a recently started enterprise with better chances to adapt to the new situation. We have also found that the international consulting firm need to help their Multinational clients to understand the Russian market, which differs from their own in many ways, and thus determine the clients' need of assistance in this matter. Therefore our conclusion is that after sensing the resources and capabilities and knowledge of the client, the international consulting firm carefully has to design the service to fit both the market and the client at the same time, to enhance the clients' possibilities to become successful in Russia.

We have found that some of the international consulting firms believe that they only have to deliver the solution to the client, without caring about the result, which means that the product is the result, not the usage of it. On the contrary, we believe that the true result from a service can first be seen when the service is used and when the client has implemented the solution. Only then it is possible to determine the value of the service provided by the international consulting firm, which makes the implementation very crucial. This is something that the consulting firms can gain competitive advantages in, if they can provide solutions to their clients that are so well designed that they can be delivered and implemented by the client without major obstacles. This has not always been the case before, as referred to in the previous

chapter about the consulting firms. However, we believe that with deeper knowledge of what characterises the development of the market, which comes from an understanding of the culture in Russia, and in addition a more thorough understanding of the client's resources, capabilities and knowledge, the international consulting firms will improve their effectiveness and ability to be successful on the Russian market.

We believe that emotional intelligence is very crucial characteristic for a consultant to have as this is the ability to understand others, foster communication and build relationships, which are crucial parts for anyone operating in the Russian market. This indicator could be used to determine a consultant's ability to understand the characteristics of the Russian market and how this influences MNC's and Russian clients. We are of the opinion that in order to be effective on the Russian market, both emotional and cultural skills are needed, and even more important is to understand the connection between the two. These two skills need to be combined to find the best solution for the client.

We are furthermore of the opinion that the consultant has to be able to integrate the cultural knowledge with the technical skills and understand how these two factors influence each other and can be combined to find the best solution for the client.

We believe that the skills required from a consultant in Russia are considerably higher than the general requirements for a consultant active in a Western business environment, since the former need to have a thorough knowledge of the cultural setting in the country. In this matter the consultant needs a comprehension of the historical and economic developments, and the present process of transition, and how these traits influence enterprises operating in this environment. Consulting a Western client in a Western market economy means that the business environment is familiar for the client, who has an understanding of the market economy concepts and therefore makes the consulting easier.

Moreover, the consultant, Russian or expatriate, has to be able to reflect and understand how the development of Russian business environment is influenced by the Western market economy characteristics, and how this, subsequently, affects the actors on the market. All this needs to be taken into regard in the design, delivery and implementation of the consulting services in Russia.

7.2 Recommendations

Problem statement:

How to enhance the effectiveness of technical consulting services by better adapting the design, delivery and implementation of such services to the requirements of the specific country cultural setting?

For the international consulting firms to become effective, we have seen the need to adapt services and to take the specific cultural setting into consideration. Therefore, we will make certain recommendations for international consulting firms, on how to integrate culture into consulting services.

One alternative for international consulting firms to integrate the cultural aspect into the traditional areas of consulting and to improve cultural understanding could be to acquire cultural specialists, such as cross cultural consulting firms. This would give them direct contact with cultural issues. However, we do not think this is the best and most adequate solution to improve the cultural understanding throughout the international consulting firm. The cross cultural consulting firm is specialised mainly in the area of cultural understanding, and the international consulting firm is a specialist in technical services. We believe that there is a risk that this will create a wide gap between the two areas and also an imbalance in the focus of the consulting services. To reach the integration of the two requires that each individual has an understanding of both sides of the issue, and does not focus on only one of them. A balance between cultural understanding and technical

skills must be reached, where the relation between them is understood and the way in which they influence each other is clear. We furthermore believe that when a cross cultural consulting firm is acquired, the cultural aspects might be over dimensioned. Similarly, to focus only on the technical aspects and to be skilled in these might lead to an over dimensioning of these areas. It is essential therefore to find a balance where integration and convergence can be achieved which takes both time and money. From the analysis in the previous chapter it seems like none of the international consulting firms are willing to sacrifice time for this right now, as this is not a priority. However, we believe that in the near future the international consulting firms have to realise the need for cultural understanding in order to create effective services on the Russian market, and even gain a competitive advantage.

Another solution to acquiring a cross cultural consulting firm is to cooperate with one. This would give the consulting firm the same advantages as mentioned in the example above, such as creating cultural awareness within the firm. However, cooperation does not normally bring any big changes, as both parts most probably will keep on with their own business as before. The cross cultural firm could help in some special projects, but it will be hard to integrate the cultural component in all technical services.

Another way of transferring and gaining knowledge is by cooperating with the clients. When doing this, the international consulting firms gain access to data information that they would normally not be available. We believe that teamwork and interacting with the client are crucial elements to really understanding each other, which furthermore determine the firms' ability to adapt services and find optimal solutions for the client. This can be done by sending out a team from the consulting firm to the client's enterprise, and interacting with the employees of the enterprise. However, this has to be combined with the other suggestions in order to make an optimally effective service.

A further option for the international consulting firm is to create a special department dealing with intercultural issues. However, in this

case they also need to have their own consultants specialised within this area and today none of the firms have these human resources. It will be an expensive process to find and recruit new consultants with the right competencies. Furthermore, a specialised department will furthermore not automatically integrate the culture with the other services because it will still be separated from the technical services. The advantage would be that the cultural issue could be found within the firm and, consequently, create a deeper understanding among the employees.

To successfully integrate culture in the traditional areas of consulting services, the consultants need to both understand the culture and have an extensive knowledge of the technical services and lastly, to be able to combine these two areas. One solution is to use local personnel to gain a better understanding of the Russian cultural characteristics. We believe that it is very crucial to have Russian employees in the firm, although this solution is far from enough, and needs to be combined with other solutions in order to be fully utilised. The Russians do understand the Russian culture, but to truly understand the culture, it is also necessary to reflect over the reasons why the culture is the way it is, how it differs or is similar to other cultures. The Russians need to understand why their culture has been influenced by the specific Russian history, and how he or she has been influenced by the Russian culture in turn. One problem in this matter, which we noted in the interviews, was how difficult it is to see the characteristics of one's own culture. A Russian person living and working in Russia is naturally integrated in the culture to such an extent that he or she does not normally reflect on the situation. However, if the Russians reach a thorough understanding of their own culture, and in addition understand its impact on the consulting firm's services, the solution of using Russians employees is very good. In addition, it is crucial that these employees consider and understand Western values and the characteristics of market economy and what is demanded within these, and even through insightful consideration reflect on how these influence the Russian business environment.

An effective solution would be to combine local personnel with expatriates in order to promote knowledge sharing and understanding between the two. An expatriate must of course have as thorough understanding as the locals, of market conditions and developments. In this aspect our opinion is that it is important to create a shared vision in order to encourage them to work together towards the same goals. We believe that interactive seminars can be used to create a shared vision where it is discussed and developed together.

The international consulting firm ought to find people with the best-suited characteristics for consultancy in Russia. Apart from being analytical and having the technical skills that are always important for a consultant, we have identified some characteristics during our study that we believe are necessary for a consultant to have in order to be successful on this market:

- Knowledge of host country culture
- Ability to adapt
- Emotional intelligence
- Human relations skills
- Language knowledge
- Knowledge of own country culture
- Customer understanding
- Market understanding
- Ability to reflect over own culture
- Understanding of cultural influences on technical services

When training people it is necessary not only to train the employees but also to select those persons that are really good at personal relationships. This will be an important criterion for a successful consultant in Russia as all business activities are based on personal relationships. In addition, cultural issues could be argued to be a very relational and female issue. Therefore we would recommend the international consulting firms to especially appoint women to be responsible for cultural awareness and integration in the firm.

Another way for international consulting firms to enhance the ability to provide effective services is to really consider the capabilities they have in the firm. In order to understand whether the consulting services are effective or not, an evaluation of the firm's capabilities have to be conducted. For consulting firms, the main capability is constituted of human resources that are all individuals in the firm. By improving the firm's capability and competence to provide services, the consulting firm can become better than its competitors and thus gain a competitive advantage. We believe that this improvement can be made with a thorough understanding of the characteristics of the environment, which is determined by the country culture where the services are to be delivered, as services are particularly sensitive to culture.

In this matter, specialised knowledge can be transferred to and integrated with others' by using rules and directives. This might be an effective way to integrate culture in the consulting firm, since most of the employees are Russians, formerly used to highly structured and authoritarian enterprises where they simply followed orders, and therefore need strongly structured directives to follow. To use this method means that there are clear directions within the company of how to operate at all levels and in all activities, and further how to share knowledge among the employees in the company. Furthermore, activities in a company can be identified by the term organisational routines, which refers to the regular and predictable patterns of coordinated actions taken by individuals. Routines are characterised as self-running activities that are undertaken by the individuals in the company semi-automatically, almost without conscious coordination. To create an environment within the consulting firm where the information sharing takes place naturally would benefit the ability to work effectively. We believe that these two methods can be used in order to reach better capabilities, such as higher knowledge. This can furthermore enhance the ability for international consulting firms to provide more effective services to the clients, derived from the combined cultural and technical knowledge.

In today's business world many enterprises are forced to rationalise and cultural training is therefore not a priority. There is no time to go to training sessions to learn what impact culture has on the business environment. However, we believe that it is crucial to take this time to learn and that this should be actively encouraged by the leaders of the consulting firm. This will in the long run be more profitable for the enterprises since they will be able to prevent mistakes caused by cultural misunderstandings.

Our main recommendation would be to create a learning organisation, where learning has to start with each individual, be developed and encouraged in the group, and then be spread through the whole organisation. We believe that if the consulting firm is going to be successful in making the whole firm take culture into consideration and be able to give the best solutions, the learning process and integration of knowledge have to start internally. Then follows the group level and the organisational level.

The first level in the organisational learning is the development of the individuals' knowledge. One solution is to have a very clear development program for both the Russian employees and the expatriates in the international consulting firm. The steps could be the following: First to indoctrinate the employees with the corporate policy in the international consulting firm to provide a broader knowledge of the company. Secondly, to send the employees on a training program in various countries through exchange in the global organisation, in which the individual faces the reality of another business environment, and sees how a developed market economy and a transition economy work. The program could be designed for trainees where they become familiar with different functions, such as finance and marketing, within the consulting firm, as well as visiting different countries. It is important that the consultants spend some time in these different functions and countries to understand the complexity of and relation of one thing to another. To understand all the functions in a consulting business is of critical importance, even though specialisation in a specific area is general procedure. This will widen the perspectives of

the individuals and increase their ability to understand and reflect over differences and how to cope with them.

Two ways to train individuals within the international consulting firm are first to get help from an external cross cultural consulting firm and second to make it an in-house responsibility and have a training department. When designing the cross-cultural training, we think that the international consulting firm should borrow ideas about learning from social learning theory, as this area considers a group of people's behaviour, which is close to the cultural area's concerns. When having these training seminars it important to have presenters that know what they are talking about. They should not exaggerate cultural behaviour and make jokes about it, but instead there has to be a balance between humour and reality, when discussing national cultures. We believe that one solution is to let someone with considerable experience from the market hold presentations. It is also important that everything is related continuously to the consulting business and various working situations, so that the people understand the connection between culture and their own work. Shorter cultural workshops are not enough to do this properly; they have to be very intensive for the employees to reach a deeper cultural understanding.

Through situation based learning, and given scenarios, the individuals within the international consulting firm can learn about Russian culture and its values and norms. This includes how the culture is reflected in significant historical, political and economic perspectives and Western market economy characteristics. These situations and scenarios can show how cultural values are expressed in behaviour. Furthermore, the individuals within the international consulting firms have to become aware of what characterises the workplace both in an international consulting firm and in a Russian enterprise. Thus, the factors that are related to job performance within the different cultures have to be focused on. These include performance standards, degrees of personal involvement, motivation, concepts of responsibility and authority, conflict and its resolution, organisational climates with their structures and systems, rules and relationships, planning needs and procedures, and communication systems. By evaluating these areas, a better

understanding between the individuals within the consulting firm can be reached, which furthermore would directly improve internal communications and indirectly improve the external interactions with the clients, and thus the effectiveness of the consulting services.

In order to determine the quality of the cross-cultural training program as well as the individuals' performance after participation, it is important to have some evaluation feedback. This could be done by various cultural knowledge tests, such as the CCA- Cross Cultural Assessor test developed by Richard Lewis communications, which gives concrete results of regarding the individual's ability to understand how culture affects business activities. Moreover, this assessor gives feedback in the form of a cultural profile with recommendations on how to improve.

The second level in the organisational learning process is group learning. Considering the consultants within the international consulting firms, we believe that it is important to continuously organise training sessions and intensive seminars with all employed within the consulting firm. This applies both to the ones that have no previous experience of this market, and also to the ones that have some previous experience, as the market is changing so fast. Our opinion is that teamwork would create an atmosphere where discussions and knowledge exchange could take shape. The knowledge sharing and learning from each other's culture should be an ongoing process. It is recommendable that both Russians and Westerners train together because understanding other people and other cultures are the basic issues, but they also need to understand and reflect over their own culture and why they behave as they do.

The third and most critical level for creating a learning organisation, is the organisational level. The knowledge within the firm has to be distributed out to all employees and be applied to each individual. This could be done by having shared seminars and a well-developed information system within the firm. It is important especially in a Russian business environment that the employees are encouraged to use the information system and that it is user friendly. Using the

information could be learned as a rule or procedure within the firm. Information sharing is the basic element for creating a learning organisation. This, however, could be a problem in Russia, as information formerly was not shared. One solution could be to have procedures for sharing experiences. These procedures should be actively encouraged by the leaders of the consulting firm, for example in meeting once a months where the employees share their knowledge gained from client interactions. In addition, a reward system for valuable information could be successfully used, where we believe it is important to reward the whole group and not the individual.

By creating a organisational learning environment within the consulting firm, where the learning process is continuously strengthened at all three levels; individual, group and organisational, we believe that the international consulting firm could improve the effectiveness when designing, delivering and implementing its consulting services and thus, gain a competitive advantage.

7.3 Future research

We have studied a very complex subject and it would take more empirical research to cover this area fully. Therefore we can see some potential areas where research further could be undertaken.

The concept of effectiveness could be researched on an operational level and further developed. Tools to measure the effectiveness of a international consulting firm's activities could possibly be developed in this matter.

We have looked into the country culture's impact on international firms' services. However, one could further study the country culture's various impacts on different services separately, such as finance and tax & legal and how each service is affected.

One area of interest to study would be the recipients of the international consulting firm's services, which are the local Russian enterprises and Western MNC's active in Russia. It would be valuable

to get these clients' points of views on how they experience and appreciate the services delivered and implemented. These clients could express how the services could be improved and become more effective concerning the cultural impact.

Another totally different study would be to further research how a learning organisation would suit an international consulting business and to look into how a learning organisation could be successfully implemented at all levels in the firm.

Since information flow is a new phenomenon in the Russian business environment, it would be interesting to study the information flows in an international consulting firm operating in Russia, and determine whether these are effective or not.

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Glasspool, Richard, Partner, Moscow, 2000-10-16

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McKinsey & Co

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Richard Lewis Communications

Morgan, Ronald, Director RLC West Sweden, Gothenburg, 2000-11-12

Trompernaars Hampden-Turner, THT

Hampden-Turner, Charles, Prof. and senior consultant, Principal, Amsterdam, 2000-10-04

APPENDIX 1

Questions for the interviews with consulting firms

Russian specific questions

Introduction questions

Could you kindly describe how your consulting firm is organised and operate in Russia?

If any, how do you see differences over time of how you have organised in Russia?

Did you have any problems in the early stage in Russia, which you do not have now?

1. How has Russian national culture and business environment changed (after the fall of communism? What is your opinion of the future development)?
2. In what way and how has the opening towards the Western World influenced Russian values and business environment?
3. What can you say about the history of consulting firms' operations in Russia?
4. A) In your opinion, what are the major problems when undertaking business in Russia?
B) What are, in your opinion, the biggest mistakes made by Western enterprises?

Culture specific questions

Give situations:

5. (Let's say that you have Western managers together with Russian managers in a business activity. In your opinion, in what areas would you see the biggest differences/ similarities?)
6. Which are the biggest differences, if any, between a typical Russian manager, and a typical Western manager?
7. How important are networks and relationships in Russia today?
8. How would you describe a typical Russian negotiation? Are decisions made on a one-to-one basis or in groups?
9. How would you describe the Russian business climate regarding independence and initiatives of the employees?

10. Would you characterise the Russian business environment as neutral and self controlled or more affective and emotionally expressive?
11. What can you say about the borders between public and private life in Russia?
12. What is considered as status in business life in Russia?
13. How is time considered: do Russians focus on the past, present or the future, and what does this mean for the business life?
14. Are there cultural differences related to age and generation between people? If so, please exemplify!

Regarding your enterprise and its services

15. A) Where in your services do you meet cultural problems?
 - On what levels
 - In what services
 - In what situations
 - Give examples...B) Do these eventual problems vary if the customer is a Western or Russian company? Please exemplify!
16. If there is a cultural related problem, how do you cope with it?
17. Are the design and delivery of your services dependent on the local environment?
 - Do you adapt your organisation to the local business environment?
 - Please exemplify.
18. Do you use local personnel in order to overcome cultural problems and give better advice? How does that work? Can you give examples of advantages and disadvantages with this?
19. Do you help enterprises in avoiding problems concerning corruption, inadequate legal framework, bureaucracy and such? If so, in what way?
20. Do you assist enterprises in establishing networks and relationships? If so, how?
21. Which are the main reasons why you and other Big 5 members do not at this point provide services aimed at coping with cultural traits? Which would be your advantages/ disadvantages compared to enterprises specialising in these matters?

22. Do you think there is a market for services aimed at coping with cultural traits in Russia? If so, why?
23. A) For big international consulting companies the service is often standardised to some extent. How much standardisation is possible? Where does the customisation come in?
B) Is there a problem to reach economies of scale in the cultural support?
24. How can the impact of cultural understanding on business activities be measured?

Company skills questions

25. What are the main competences, in your opinion, needed in order to provide assistance in cultural matters? Which actors can provide assistance in these matters? Is this an area where you could provide assistance?
26. What does it take to be effective as a consulting firm in Russia, what skills/resources are essential, what capabilities are crucial?
27. In what department would cultural support fit in?
28. How flexible are your employees regarding movements between different countries?
29. According to some information, we have heard that the employee turnover rate in your business is quite high.
A) Does this mean that you have problems to keep the most skilled persons in the company?
B) How do you, in this matter, build personal relationships with the customers as it is very important (in Russia)?
30. What are the prerequisites for successfully integrating
 - a) Individuals' knowledge
 - b) Activities and Functions in your company.

Cultural knowledge specific questions

31. A) How important is cultural training for a *Western company* undertaking business in Russia?
B) How important is the cultural understanding for a *consultant* working in Russia?

32. A) Most people often talk about cultural learning as an informal process of knowledge transfer between people. Is the transfer of cultural knowledge *within your company* formal or informal? Explain!
- B) To what extent does your company uses an internal system for information sharing?
33. How to get the knowledge and develop people's skills about the culture in Russia? What is your opinion about gaining knowledge through:
- Training
 - Workshops
 - Specialised skilled persons in the cultural field
 - Merger / Acquisition
34. What do you think about the present and the future demand of cultural support? Do you see any new services coming within this field?

Customer specific questions

35. How do you transfer your cultural knowledge to your *customers*, so that they can implement and continue to run systems and processes themselves? In a formal or informal way?
36. Do enterprises apply for your assistance in issues specifically related to cultural differences? If yes, please exemplify! If no, do you deliver this sort of assistance as a part of your other services?
37. Is cultural advice a priority for the customers of the consulting firms? Why/ Why not?
38. How to make the customers aware of the need of cultural integrated support?
39. *Do you mind if we come back to you if we need some more information?*

APPENDIX 2

Cultural changes in Transition economies

Date:

Name:

Company:

Upper Management

Middle Management

Other

Country:

Nationality:

If you are an expatriate, number of years experience in the country:

Age:

By considering the following statements, please circle the value you perceive the **General Business Climate**; five years ago, today and five years in the future.

Business organizations are centralized:

	Five years ago					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	Today					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	In five years					
Strongly Agree	1	2	3	4	5	Strongly Disagree

Management has a high amount of authority:

Five years ago						
Strongly Agree	1	2	3	4	5	Strongly Disagree
Today						
Strongly Agree	1	2	3	4	5	Strongly Disagree
In five years						
Strongly Agree	1	2	3	4	5	Strongly Disagree

People are employed based on merit and not on personal relationships:

Five years ago						
Strongly Agree	1	2	3	4	5	Strongly Disagree
Today						
Strongly Agree	1	2	3	4	5	Strongly Disagree
In five years						
Strongly Agree	1	2	3	4	5	Strongly Disagree

Employees show their own initiative:

Five years ago						
Strongly Agree	1	2	3	4	5	Strongly Disagree
Today						
Strongly Agree	1	2	3	4	5	Strongly Disagree
In five years						
Strongly Agree	1	2	3	4	5	Strongly Disagree

Employees think in terms of “I” instead of “We”:

	Five years ago					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	Today					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	In five years					
Strongly Agree	1	2	3	4	5	Strongly Disagree

Competition is encouraged:

	Five years ago					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	Today					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	In five years					
Strongly Agree	1	2	3	4	5	Strongly Disagree

There are rules for every thing:

	Five years ago					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	Today					
Strongly Agree	1	2	3	4	5	Strongly Disagree
	In five years					
Strongly Agree	1	2	3	4	5	Strongly Disagree

New ideas are approached with caution:

		Five years ago						
Strongly Agree	1	2	3	4	5	Strongly Disagree		
		Today						
Strongly Agree	1	2	3	4	5	Strongly Disagree		
		In five years						
Strongly Agree	1	2	3	4	5	Strongly Disagree		