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**THE SECRET TO SUCCESS: DEVELOPING AN UNDERSTANDING OF WHAT MAKES  
A FOREIGN FIRM'S ORGANIZATIONAL CULTURE EFFECTIVE IN RUSSIA**

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# **The Secret to Success: Developing an Understanding of What Makes a Foreign Firm's Organizational Culture Effective in Russia**

## **ABSTRACT**

This paper investigates what types of organizational culture are most effective for foreign firms operating in Russia. This is done by examining the characteristics of the organizational cultures of nine successful Russian subsidiaries of Swedish multinationals. Nine characteristics of performance-enhancing organizational cultures for the Russian context are identified. Implementing the nine organizational culture characteristics described in this paper, should help other firms to achieve the success that the firms in this study have reached in Russia's challenging, but potentially very rewarding market.

## **KEY WORDS**

Russia

Organizational culture

Firm performance

## Introduction

As a result of increasing economic problems, Russia opened its doors to foreign direct investment in 1987. Initially joint ventures were the only entry mode allowed. However, in 1991 wholly-owned foreign firms also became legal in Russia. Foreign firms were naturally attracted to Russia with a population of 150 million people, a well-educated and inexpensive labor supply, and excellent natural resources. In addition, Russia's lack of products and services in many areas resulted in little competition for foreign firms.

However, along with the attractive opportunities mentioned above many foreign firms found many challenges both inside and outside the firm. Creating an organizational culture that facilitated harnessing maximum potential from employees proved to be a key challenge. Many firms also discovered that some attributes of organizational culture which were effective at home were not equally effective in Russia. Beginning with the pioneering work of Fayol (1949), much management research has assumed that management theories and techniques have universal applicability. However, the cross-cultural research of Adler (1991), Hofstede (1980), and others have indicated that most management theories need modification for different national contexts. This paper agrees that what is effective in one country may prove ineffective in another and suggests that rather than a universal theory of organizational culture and effectiveness, that theories of organizational culture and effectiveness must be modified for different national contexts. As a result, this study suggests nine key characteristics of performance-enhancing organizational cultures for the Russian context.

Before moving on it is useful to consider exactly what organizational culture is. Denison (1990) defines organizational culture as, "the underlying values, beliefs, and principles that serve as a foundation for an organization's management systems as well as the set of management practices and behaviors that both exemplify and reinforce those basic principles." In addition, it is important to state that changing an organizational culture is a long slow process and limits definitely exist to

the extent to which organizational cultures can be changed. This said, in an environment like Russia where change is constant and essential, our experience indicates that it is much easier to change organizational cultures than in the West. Also, it is important to keep in mind that firms obviously have more freedom when starting a new firm in Russia in designing an organizational culture than in changing an existing firm's organizational culture. Thus, our experience indicates that it is possible to change a firm's organizational culture, but we acknowledge that this is a slow and challenging process which will not happen over night.

### **Organizational Culture and Effectiveness**

The relationship between culture and the effective functioning of organizations has drawn attention of sociologists, social anthropologists, and social psychologists for over 50 years (Denison & Mishra, 1995). Several organizational researchers have also investigated the relationship between organizational culture and effectiveness (Barney, 1986; Ott, 1989; Saffold, 1988; Wilkins & Ouchi, 1983), but few explicit theories of organizational culture and effectiveness have been developed (Siehl & Martin, 1990). In addition, those few researchers who have explicitly focused on organizational culture and effectiveness (e.g., Denison, 1990; Denison & Mishra, 1995; O'Reilly, 1989; Kotter & Heskett, 1992), have focused primarily on the U.S. context.

This study uses a sample of foreign firms operating in Russia to investigate the relationship between organizational culture and effectiveness in a setting quite different from that in the United States. The increased interest that foreign firms are showing in Russia, the widely publicized cultural difficulties that many foreign firms have experienced operating in Russia (e.g., Cattaneo, 1992, Fey, 1997), and the limited amount of extant knowledge about doing business in Russia all suggest that Russia is a very appropriate country on which to focus.

The study of organizational culture and its impact on firm performance began in the beginning of the 1980's with the work of Deal & Kennedy (1982) and Peters & Waterman (1982).

Deal & Kennedy focused on the strength of organizational culture and concluded that mere strength would yield superior performance. Peters & Waterman focused on the essence of excellence, and identified eight prescriptive characteristics derived from their study of excellent companies.

The beginning of the 1990's saw a move away from the conceptual level of organizational culture and an attempt to make organizational culture quantifiable. Kotter & Heskett (1992) present a contingency approach to the relationship between organizational culture and firm performance. Their work focused on the importance of firms having organizational cultures which are adaptable and which fit a firm's strategy. Denison (1990) and Denison and Mishra (1995) set out to develop a model of organizational culture and effectiveness. They tested their model by collecting systematic data from over 700 firms in the USA using questionnaires. The empirical results supported their model which suggests that there are four dimensions which are important for an effective organizational culture: adaptability, involvement, consistency, and mission. While other studies also exist (e.g., Gordon, 1985; Hansen and Wernerfelt, 1989; Kanter, 1983; Kilman et al., 1995; Kravetz, 1988; Ouchi, 1981; Tichy, 1987; Schein, 1985), the studies mentioned above represent many of the key studies investigating the relationship between organizational culture and effectiveness and provide the reader with a picture of the state of the field today.

### **National Culture**

An important point of this study is that in different national contexts different organizational cultures are more effective. This is particularly important to keep in mind since most previous studies of organizational culture have been conducted in the US context. As a result, one can picture this study as being positioned at the intersection of organizational culture and national culture as Figure 1 depicts.

----- Insert Figure 1 about here-----

To help the reader understand how Russia's national culture is likely to affect organizational cultures in Russia, we will now briefly describe Russia's national culture by using Hofstede's (1980) cultural framework, by far the most widely-used framework in the field of national culture research. His framework divides national cultures into four dimensions: power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. Hofstede defines the dimensions as follows:

- 1. Power Distance:** the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally.
- 2. Uncertainty Avoidance:** the extent to which a society feels threatened by uncertain and ambiguous situations.
- 3. Individualism-Collectivism:** individualism implies a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only. Collectivism is characterized by a tight social framework in which people distinguish between in-groups and out-groups.
- 4. Masculinity-Femininity:** the extent to which the dominant values in society are masculine- that is, assertiveness, the acquisition of money or things, and not feminine--caring for others, quality of life, or people.

Hofstede's work measured these dimensions in different countries using scores on a scale from 1-100, indicating the degree to which the dimension is present. While Hofstede did not collect data in Russia, Naumov (1996) conducted a study in Russia using Hofstede's questionnaire. Naumov (1996) found the following scores for Russian national culture: power distance--40 (In comparison, Hofstede's values were 40 for USA and 31 for Sweden), uncertainty avoidance-- 68 (USA 46, Sweden 29), individualism-collectivism--41 (USA 91, Sweden 71), and masculinity-femininity--45 (USA 62, Sweden 5).

A deeper understanding of the characteristics of the Russian national character is provided by V.O. Kliuchevskii's (1987) who presents a set of stereotypical Russian modes of behavior:

- Circumspection and caution
- Resourcefulness
- Patience in the face of adversity and deprivation

- A tendency to look back instead of forward
- More circumspect than farsighted
- A tendency to monitor results more than to set goals
- Inconsistency in seeing things through
- A tendency to dissemble
- Ambiguity, taken as duplicity
- spurts of energy
- Tendency to work as a group rather than individually

## **Methodology**

Our study was conducted between July 1997 and July 1998. Firms were randomly selected from a list of Swedish firms operating in Russia. For a firm to be eligible for the study it had to employ at least 20 people in Russia and have been operating in Russia for more than 3 years. The firms cover a wide range of industries. Our hope is that industry-specific issues balance out and thus allowed us to highlight issues relevant in the general Russian context. This article is based on a sub-set of the companies interviewed—namely, those nine companies which we interviewed which rated their overall performance as either 4 or 5 on a scale of 1 to 5 where 1=poor performance and 5= excellent performance. In other words, this study seeks to investigate the characteristics of the organizational cultures of top-performing firms in Russia in an attempt to shed light on what has helped to make them successful. The names and demographics of the companies can be found in Table 1.

-----Insert Table 1 about here-----

Between 2 and 5 one-hour interviews were conducted with managers from each firm. The interviews were conducted using open-ended questions with at least two researchers present at each interview. One interview was held in Russian, but all other interviews were conducted in English. One Russian-speaking researcher was present at each interview and was able to facilitate any language related problems.

An effort was made to speak to representatives of as many different hierarchical levels in each firm as possible. However, without exception, one member of top-level management was interviewed in each company (normally the general director). Of these top level managers, eight were Swedish, one Danish, one Latvian, and two were Russian. Only one top manager had less than three years experience with the company.

Interview notes were typed immediately following the interview. Each researcher took independent notes which were compared and any differences which emerged were resolved via discussion. The interviews provided us with a wealth of qualitative data. The data was analyzed to look for emerging trends. A number of trends or characteristics of performance-enhancing organizational cultures in the Russian context emerged consistently when looking at the interview write-ups. The 9 most prevalent characteristics are described below.

## **Findings**

### **The Two Work Force Dilemma**

The two work force dilemma is a consequence of the rapid and dramatic changes that have taken place in Russia following the end of the Soviet Union. The development of a market economy, a dramatic change in course, left a large part of the work force in confusion with little understanding of the new framework to be used. Simplifying the issue, the result is that today two different work forces exist in Russia: those who have spent most of their working life in the Soviet system and those who have entered the work force in the last 10 years. We have refer to the situation described above as the two work force dilemma. Effectively dealing with the two workforce dilemma is a critical issue for a performance-enhancing organizational culture in Russia today. A manager at company B provides support for our view:

Those under 30 have never worked under and have no negative experience of the old system. They have never had a position in the Communist Party, are not afraid of censorship, etc. The people over 40 employed at company B worked prior to the perestroika in research institutes, etc. and have completely different experiences and knowledge. They have had to relearn and none enjoy high positions.

The problem is that these two groups have very different expectations, and concepts of the nature of the company and the context in which it operates. The latter group of young Russians are energetic, excited about the future, eager to learn and in the process of learning how to survive in a market economy at a tremendous speed. The former group has been molded in the Soviet era and see their job as simply a part of the daily routine, have little concept of market forces, and often do not possess many of the skills necessary today. Furthermore, they do not understand the make up of a modern company. They are used to producing according to preset quotas and thus cannot see the *raison d'être* of sales and marketing departments. The two workforce dilemma is exemplified by Alfa Laval, a large Swedish firm producing and selling separation and heat exchange equipment, acquired the old Russian state firm Potok to form Alfa Laval Potok. Alfa Laval Potok, which is located 30 kilometers from Moscow, primarily produces and sells heat exchange equipment. Many of the factory workers are from the original Potok company where as most of the sales employees are new to the firm since there was no need for a modern sales department during communist times. Alfa Laval Potok's managing director Bengt Celsing explains some challenges they have had:

In order to develop Potok a modern marketing and sales unit was needed. This existed in Alfa Laval AU--a modern marketing and sales group which Alfa Laval had established in central Moscow prior to the acquisition of the Potok factory—so we moved the sales organization to the Potok factory. We then had a cultural problem between the two groups. One representing

the more traditional Russian style and type of operation and the other with more modern values. Most sales and marketing employees were younger, better educated, and better paid [than their production counterparts]. However, over time with significant work on our part employees have come to appreciate the importance of all of the different roles that employees have at Alfa Laval and the necessity of having all of the different roles for the firm to be successful....We have come a long way in creating a one company spirit.

In terms of organizational culture, the difficult issue is that the two groups of Russians discussed above are not motivated by the same factors. How does one motivate one's employees when they, in a sense, are in two different worlds? One is forced to run two parallel human resource strategies. On the one hand, the young modern Russians are excited by profit sharing, growth opportunities, and the opportunity to interact with other parts of multinationals' global network. The older generation of Russians normally do not feel any attachment with the other parts of the company, are marginally motivated by profit sharing, and generally see themselves in an opposing role in relation to management and the new workforce.

This issue is especially relevant when dealing with the older generations of factory workers, but it is also relevant to a somewhat lesser extent to white collar workers as well. Of course one might argue that the two work force dilemma does not really have to be an issue for multinationals since they can avoid this problem by making sure that when foreign firms start operations in Russia they use a greenfield strategy, thereby recruiting the entire workforce from the first category of the workforce. However, this approach would cause a problem given the structure and traditions of Russian society. One must remember Russian society's hierarchical nature, Russian people's respect for seniority, the importance of contacts, and Russian society's paternalistic nature. Furthermore, it is not always possible to employ only young enthusiastic Russians for all positions. Many times, these young employees, although qualified technically, do not have the necessary

contacts to do the job or are simply unacceptable at a certain position in the company due to their age or level of experience. As a result, companies may be forced to hire white-collar workers from the older workforce and in doing so must consider the two work force dilemma in spite of starting operations in Russia using a greenfield strategy

### **Empowerment**

Empowerment is the degree to which employees are encouraged to make certain decisions without consulting their managers. In an empowered organization, decisions are made at the level where the best information is available. Magnus Brännström, managing director of Oriflame Russia, describes the system he has used to create an empowered atmosphere in Oriflame Russia which Brännstrom suggests has been important for Oriflame Russia's success:

To make sure that decisions are made at the right level we have a 'negative' decision list. It is a guideline of certain decisions that should be taken at specific levels of authority. Since our default is that employees are empowered, if a decision is not on the list, an employee knows that the decision is his or hers to make. We have found that this more formalized system of empowerment helps employees feel more comfortable in acting empowered and making decisions. We spend significant effort on emphasizing that employees at Oriflame Russia are empowered and we want them to act that way.

Oriflame is a Swedish cosmetics company, normally selling its products through a personal sales system instead of traditional retail channels. However, Russia was an exception to this policy and the Oriflame brand was initially launched in Russia through retailers in 1992. It was not until 1996 that direct sales through a personal sales system was started. Despite its relatively modest presence world-wide, Oriflame has been very successful in Russia and is probably the most well-known cosmetics brand in Russia today.

Russian firms have traditionally been very hierarchical. Employees always asked approval from their managers even for small things. This was also done for self-serving safety purposes. When mistakes happened in communist Russia, punishment was severe, so everyone wanted to be able to pass the buck to his manager. Russian national culture also plays an important role in the empowerment issue. The high uncertainty avoidance (Bollinger, 1994) appears to result in a situation where the employee avoids any possible conflict within the hierarchy that may arise as a result of a personal initiative outside the strict guidelines of the hierarchy. This background has resulted in the average Russian employee being reluctant to take initiative, and having tremendous respect for hierarchy. These factors often result in the absence of empowerment. It is important to remember that it is one thing for a Western firm entering Russia to decide it wants to have an empowered organization. However, for this to be successful, Russian employees must also decide that they are empowered and act accordingly.

While it is clear that foreign firms in Russia should strive to foster empowerment in their organization, it seems that an organization with moderate empowerment is optimal in Russia today. Extreme empowerment should not be forced upon Russian employees given the fact that many Russians feel uncomfortable with the amount of responsibility that it involves and often act ineffectively in such a situation. This point is exemplified by Naumov's definition of Russian participative management: "the desire to participate, but not to assume responsibility" (Naumov, Puffer & Jones, 1995). It appears that the process of empowerment should be taken in steps, allowing for the Russian employees to adapt gradually.

It should also be noted, however, that it is not always easy to be an empowered Russian employee, as the following comment from the Western managing director of Destination Services Russia (DSR) suggests:

Even if a Russian employee or manager has the ambition, knowledge, and responsibility to solve a problem, the customer or supplier often doesn't allow him to. Westerners, and also some Russians, rarely trust Russians and ask to discuss the problem with a Western manager.

DSR is an incentive/business travel agent set up by two Swedes and a Russian partner in 1991. DSR acts as a travel agent and also arranges incentive travel programs in Russia primarily for employees of foreign companies.

### **Training**

By investing in capability development, a company is continuously raising its bench strength and clearly signaling to the employees that they are an important source of competitive advantage. The benefits of providing employees with training are exemplified by the following quote from the Western general manager of SAS St. Petersburg:

...the courses abroad, which are part of their [the employees] training, not only motivate in themselves, but are a financial incentive, in that they receive a free trip abroad and earn good money based on corporate standards for compensation in the countries where the courses are held.

Scandinavian Airlines St. Petersburg (SAS) is a branch of an airline providing daily flights from St. Petersburg to Stockholm and Copenhagen. SAS has had operations to and from St. Petersburg since the 1950s. However, operations were suspended between 1982 and 1992 due to decreased demand.

Russian society has always valued knowledge and learning and thus Russian employees have a definite thirst for knowledge which is exemplified the desire to learn about the workings of a market economy. Many Russian employees interviewed clearly stated that the possibility of a job

providing extensive training was both a motivating factor and a factor that could serve as compensation for a lower salary. This opinion is testimony of the desire of many Russian employees to learn and the value placed on knowledge.

In addition, some employees viewed the money invested in their training as a sign of long-term commitment to Russia by their company. From the employee's point of view, this commitment to Russia provides them with career possibilities and is thus a positive sign. Again, employees are more likely to work hard if they feel it has long-term benefits for them. In addition, for some employees, large foreign multinationals seem to provide the long-term stability and job security once provided by the Soviet state. Along these lines, many Western employers provide their employees with medical insurance, pension plans, etc., due to the lack of adequate social security and welfare in Russia today. These benefits are much appreciated by employees. This is not surprising since the findings of Bollinger (1994) suggest that the Russians score high on uncertainty avoidance. Furthermore, Puffer & Shekshnia (1996) state that Russian society has traditionally emphasized values of solidarity, close personal relationships, and care for the less fortunate.

The high level of education among employees in Russia poses Western companies with a difficult challenge in terms of designing their training programs. Given the high proportion of people with higher education, it is not uncommon to have employees with engineering degrees or even Ph.D.s employed as secretaries, receptionists or other non-management positions. The difficulty is that traditional training available within their companies is not applicable given the unique backgrounds of many Russian workers. The companies can not use the typical training designed for employees in emerging markets because the level of education of the Russian employees is far superior to the level of education that these programs were designed for. On the other hand, the companies can not apply the training programs designed for employees in Western

countries, because the Russian employees lack the background in terms of market economy principles and basic business skills. Many of the basic concepts of a market economy that a Westerner takes for granted such as competition, pricing, and service are completely new for the vast majority of the Russian population. Thus, Western companies have to design programs that are theoretically stimulating, but at the same time address the basic principles and foundations of business management in a market economy.

Designing suitable training programs is difficult, but essential. Having good training programs can be a way of attracting the best people to a firm and retaining them. Furthermore, the value of training as a motivational factor should not be underestimated. We asked middle managers we interviewed how much of a one-time bonus they would forgo in order to receive a week of training in Sweden. The average response was \$1300. This is quite significant since this was about 1.5 to 2 times what most of them were making in monthly salary. Paying a monetary bonus only benefits the firm one time in increased motivation. Hopefully, sending an employee to a training program has positive long-term benefits in addition to the initial motivation it creates. Thus, the extent that Russian middle managers seem to be motivated by training programs is an important point for general managers of firms in Russia to keep in mind when determining how to spend their money most effectively.

The enthusiasm and eagerness of the Russian employees to learn is a resource that should be leveraged in creating the sort of organizational culture that will provide the company with a competitive advantage. As the managing director of company A pointed out:

The corporate culture in our company is humane and democratic, the foundation is to motivate people 'with the brain'. With this I mean to create an atmosphere of learning, improvement, challenge and inspiration. This is a better motivation factor than short run economic gains [for the employees].

## **Team Orientation**

An important dimension of organizational culture is the degree to which teams are used. We found that most of the top-performing companies used teams extensively and found them to be very beneficial. To understand this process one must go back, once again, to the national characteristics found in the studies of Bollinger (1994), Hofstede (1993), and Naumov (1996). It is important to look, in particular, at their findings in the collectivist-individualist dimension. Naumov (1996) states that his findings support the notion that being accepted by the group is important to the individual. Russians have for centuries been taught to value group loyalty, and the protection it offers, and to avoid standing out (Puffer, 1994). Thus, it is natural that Russians are positively inclined to work in groups and live up to the demands of the group. This assumption supports the findings from our interviews, which indicate that Western companies have been very successful when using groups and teams in Russia.

An interesting finding is the spin-off effects that teamwork appears to have in Russia. The most effective organizations that we have encountered in our study were ones where the company had put the teams in a competitive environment. For example, in one company in our study (company A), the company's entire sales force had been divided up into teams. Team performance was monitored with graphs posted in different parts of the office. The effects were tremendous and a positive competitive environment was created whereby the teams were constantly comparing results week by week. This result occurred, even though no bonus system or other compensation system had been connected to the performance. It appears that the team atmosphere created this positive spiral. According to OECD (1996) compensation was not normally related to performance under the Soviet system. Employees were more concerned about friendships, social contacts, and equality at work. This observation implies that the average Russian employee cares more about his

peers' opinion than management's opinion of his/her performance. OECD argues, accordingly, that in a team environment employees, lazy or not, will work hard if their peers do.

### **Coordination and Integration**

Russian firms have traditionally been very good at vertical coordination and integration. As a result, foreign firms operating in Russia do not normally find vertical coordination and integration to be a large problem. However, creating efficient lateral coordination and integration is a key problem many Russian firms face today. The patterns and characteristics of lateral communication give indications of particular problems in terms of coordination and integration in the Russian context. A Russian middle manager of Company A expresses typical frustration, "It is not uncommon for employees to have coffee and a cigarette together over a break but when they then return to their desks, they only communicate through their [respective] superiors."

Most successful firms we visited spent significant effort in facilitating lateral communication. In addition, many managers expressed the difficulties they had experienced in creating a common perspective and a one-company atmosphere within their organizations in Russia. The lack of a one-company atmosphere impedes coordination and integration. Once again, this situation can be attributed to the Soviet era and its planned nature of work. The employees have a tendency to see their role in isolated terms and not in relationship to the company as a whole.

### **Mindset**

Mindset is the label we have given to an issue related to the perceptual framework of Russian employees and how this framework differs from Western counterparts' perceptual frameworks. Creating an organizational culture that takes into account the different mindsets that often exist between Westerners and Russians is critical in creating an effective organization in Russia.

Russian employees' perceptual frameworks are often different from those of their Western colleagues. We believe that the differences stem from the concept of a Western frame of reference and the relative nature of this concept. In classifying the frame of reference as Western we refer to the tacit knowledge that one acquires when living in a society based on the market economy principle. Generalizing to a large extent, one can say that there is a common understanding among Western companies and managers regarding what constitutes Western common sense, especially in terms of business relationships and interpersonal relationships. It is based on norms western businesspeople have been exposed to in society and social etiquette. These are by no means unquestionable truths or necessary the only right way, but they are accepted as such and are thus often expected. The above all relates to reference points, which generate a behavior base that seems logical, although many times this is far from the truth.

The best way to describe this phenomenon is to use an example that we encountered in our interviews. One manager at DSR in St. Petersburg described a situation in which one of the company's customers invited the manager and one of her employees to dinner in a nice restaurant. When it came time to order, the young Russian employee, without hesitation, proceeded in ordering an elegant glass of wine and the most expensive appetizer and main course on the menu in spite of the fact that the customer had previously chosen no appetizer, an inexpensive main course, and water. The manager was shocked, assuming that her employee, like herself, would adhere to the common courtesy of ordering something in the mid-price range or along the lines of what the host was ordering in terms of price-range. However, for the Russian employee it was natural to order the best items on the menu since the Russian employee was not paying and did not know when such an opportunity would arise again. Perhaps it was just a case of the Russian employee never having been exposed to that kind of menu before. In any case, the Russian employee was exposed to an unfamiliar situation and thus based her actions on her perceptual framework or notion of common

sense or logic which in this situation stood in direct contrast with what is the unspoken rule of the international business community. Magnus Brännström, Managing Director of Oriflame Russia explains the difficulty differences in perceptual frameworks can create: “We [Western managers] often forget to explain our actions to employees, assuming that they are interpreting them the same way as we do. They often don’t! We must work hard to keep this possibility in mind and constantly try to think from our employees point of view.”

Another component of mindset is the lack of awareness of certain concepts by Russian employees. The absence of these concepts is predominantly a function of the fact that no one in the current workforce has grown up in the market economy. A number of managers told us that the concept of service and particularly good service is difficult to convey to the Russian employees. Thus, when they have instructed employees to provide good service, the employees have been very confused and the outcome disastrous. The reason is quite simple. How can one be expected to understand what good service is and thus provide it, when one has never experienced good service? In the Soviet times service was unheard of and consequently, good service is not something that the average Russian can identify with or expects for that matter. Obviously this problem is decreasing as time passes.

In creating a performance-enhancing organizational culture for the Russian context, it is important to keep in mind the potential differences in mindset between Russian and Western employees. The difference in mindset adds an additional challenge to successful communication between Western management and many Russians. It can often constitute a difficult obstacle in the transfer of ideas and methods, especially if it is not identified as a source of misunderstanding. To overcome this problem, open communication must exist. Everyone must be conscious of the mindset issue, and address this issue in training programs. The mindset issue clearly adds an extra dimension to training. Companies need to provide their employees with the possibility of acquiring

the required conceptual framework in order to function according to international business norms with which they are being confronted. This is difficult due the subtle nature of the problem and the inherent difficulty in identifying the areas where employees need help. Dealing with the mindset issue requires considerable time spent with employees on an informal basis so that these issues can be addressed.

### **Customer Focus**

The understanding that the customer, and not production, is the driving force behind a market economy is a major issue in creating a performance-enhancing organizational culture in Russia today. Addressing the customer-focus issue needs to begin with top management stressing that all employees in the firm must constantly try to find out and keep in mind what their customers want. This attention is necessary so that customers will continue to make purchases from the firm, a necessity for the company to survive. However, companies need to do more than just talk about customer focus. Clearly, there are different ways to deal with the company focus issue. We will now present one way that we have observed to be very successful.

Customer focus is obviously facilitated if more employees come in contact with customers. As a result, some companies we interviewed were dealing with this problem by regularly sending office and production workers out with the salespeople. This practice was effective in creating an awareness of the customer and also helped top management in establishing an open organizational culture that focuses on the joint effort of all the departments in achieving success.

We noted a positive spin-off when companies pursued the above strategy of sending all employees periodically out with sales people to meet customers. The fact that employees from different departments within the company are forced to spend a day together naturally leads to more and improved lateral communication as they begin to understand the way in which their different roles are complementary to each other. In doing so, the value-chain of the company becomes clear

to the employees. They suddenly realize that all the functions within the company are interrelated and dependent on each other. The value of the service or product that the company offers is the result of their joint effort and any breakdown in the chain results in a breakdown in the whole value creating process. As the employees observe the interaction between the salespeople and the company's customer and realize the concept of the value chain, they are able to see that the seller-customer relationship also exists within the company. Each department within the company has either a sales person or customer role in relationship to other departments within the company. Thus, as it becomes clear to them that the customer is the driving force behind the system, it also becomes clear that lateral communication is the key to the value creating process.

Given the fundamental nature of customer focus and the difficulty in creating it in Russia, the active management of this issue can lead to significant performance improvements for a foreign firm operating in Russia.

### **Strategy**

Most modern Western firms state various company goals to their employees. However, along with these individual goals, it is important that the firm's overall strategy be conveyed to all employees so that employees can understand the necessity of the individual goals in helping to pursue the firm's overall strategy.

The Soviet era is well-known for widely proclaiming goals. The same applied for companies in the Soviet era, whose goals were normally passed down to the firm and in turn to the workers by the Communist party in somewhat more specific terms. At first glance, this focus on goals may seem similar to what many Western companies are trying to achieve today. However, the setup in the Soviet system was different in one important aspect. The rationale behind the goals was never explained to employees in the Soviet era. They were told what the goals were, but were never told why these goals were chosen. Thus, the employees did not internalize the goals and

could never see the whole picture and their role in that context. Today, effective Western companies in Russia are doing the exact opposite. They are spending much effort on explaining the firm's overall strategy and how this creates the rationale for the individual goals given to their employees. As Alla Jegorova, General Manager of Tetra Pak St. Petersburg explains:

Bimonthly meetings are held where the whole staff gets together and discusses common problems. Each department gives a short account of what it is doing and [the general manager] tries to create a common strategy towards which everybody is striving.

Tetra Pak, which produces packaging equipment for food and drink packaging, has a long history of work with Russia. Led by their leader Gad Rausing, who had a strong believe in the potential of the Russian market, Tetra Pak formed the first joint venture in the food industry in Russia in 1989. Operations began in St. Petersburg in 1991.

The process of explaining the company's goals to Russian employees is one that takes time and which will have a full effect only when the employees acquire a new way of thinking. Companies have realized this process to varying degrees, and as a result some are taking action in this respect as the following example illustrates. As a Russian middle manager in Ericsson Corporatia, explains:

We hold company-wide meetings once or twice every year. There, top level management informs about the future and the direction of the company. We also have meetings and an introduction program for new employees as an introduction to the company for the 15 people that are employed monthly.

Ericsson Corporatia is a wholly owned subsidiary of Ericsson, a Swedish telecommunications equipment company. Ericsson's first contract in Russia was signed in 1881 and

at the time of the revolution in 1917 Ericsson had 3000 employees in Russia and the Russian market stood for half of its total turnover. Ericsson was not in Russia during the Soviet Era, but returned in 1994 by setting up the subsidiary in Moscow.

Given the above, it is interesting to consider what effect a company's strategy has on firm performance. We believe that a company's strategy is like a ship's sails. If the employees do not understand that the company has a clear strategy, they will not feel that they are part of the process necessary to reach the stated. In this case, the company's sails will have rips and tears in it. The result is that the company will move forward slowly with only a fraction of its potential. When employees start to understand the company's strategy, the company will finally be able to navigate with full sails, pick up speed, reach its potential, and be able to maneuver swiftly using its vision as the operative instrument.

### **Conclusion**

Russia presents many opportunities for foreign companies. However, in order to be able to take advantage of these opportunities, a number of challenges must be overcome. Among these challenges is creating a performance-enhancing organizational culture that blends modern Western ideas with Russian traditions. Fortunately, it is possible for foreign firms entering Russia today, to learn from the experience of firms already present in Russia.

This article has describe nine key characteristics of performance-enhancing organizational cultures for the Russian context which emerged when analyzing the key characteristics of the organizational cultures of nine successful Russian subsidiaries of Swedish multinational firms. Creating an organizational culture in Russia which includes these nine characteristics can help foreign firms operating in Russia to be successful by taking advantage of the trial and error learning that the firms in this study had to go through in order to reach the performance-enhancing organizational cultures they have today. Obviously this study is exploratory and only the first stage

in helping us to understand what types of organizational cultures are most effective in Russia. Future studies are urged to build on this study and include a large sample of firms to increase generalizability and to combine quantitative and qualitative methods.

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**Table 1: Descriptive Characteristics of Companies in the Study**

<b>Company</b>	<b>City</b>	<b>Industry</b>	<b>Number of employees</b>	<b>Years in Russia</b>
Alfa Laval	Moscow	District heating* <sup>†</sup>	350	4
Company B	St. Petersburg	* <sup>†</sup>	64	4
DSR	St. Petersburg	Incentive travel * <sup>†</sup>	42	5
Ericsson	Moscow	Telecommunication * <sup>†</sup>	300	3
Market Point	St. Petersburg	Advertising * <sup>†</sup>	20	7
Oriflame	Moscow	Cosmetics <sup>†</sup>	350	4
SAS	St. Petersburg	Airline <sup>†</sup>	20	5
Company A	St. Petersburg	* <sup>†</sup>	70	3
Tetra Pak	St. Petersburg	Food packaging* <sup>†</sup>	26	6

\* = production, <sup>†</sup> = sales

**Figure 1: Location of This Study**



## **NOTE TO EDITORS AND REVIEWERS**

We are still in the process of getting permission to use several quotes with the companies' names. Thus, for the moment these companies names are disguised. We hope to be able to use the companies real names by the time the article is accepted for publication.