

HOW TO BUILD SUSTAINABLE BUSINESS RELATIONSHIPS IN A DYNAMIC
ENVIRONMENT

- The case of Electrolux in Russia

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*“We all live under the same sky,
we just don’t all have the same horizon”*

- Konrad Adenauer -

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ABSTRACT

During the 1990s great changes have occurred in Russia. The economy is gradually transforming to a market economy and the country experienced a financial crisis in August 1998. This volatile environment that characterises Russia gives rise to the importance of forming sustainable business relationships to cope with unpredictable changes and to be able to decrease the degree of uncertainty.

With this background, the aim with this thesis is to explore if it is possible for a Western Multinational Company (MNC) to build sustainable relationships in such a dynamic environment and how this can be conducted. To fulfil the purpose, a theoretical framework was developed consisting of the Institutional approach, the Network approach and the Interaction approach. To get a deeper understanding of the country culture, Trompenaars seven dimensions of how to analyse a culture was applied.

The case company in the study is Electrolux, which operates in the Russian consumer durable appliances market. The focus has been directed towards the distribution network and how Electrolux manages the business relationships within it. The empirical data was collected through secondary data and by interviews conducted in Moscow and St. Petersburg, Russia.

The conclusion drawn is that personal relationships based on mutual trust are the key factors when building sustainable business relationships in Russia, as the legal system is inadequate and unsupportive if violations of agreements occur. Time has to be devoted to form these relationships and it is important to meet face-to-face frequently. A Western MNC has to add value to the business relationships immediately; both on the company and individual level, while at the same time demonstrate long-term commitment to the relationships.

Key words: Electrolux, Russia, networks, relationships, dynamic, culture.

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1. Introduction

The purpose of this chapter is to give a description of the background of the business environment in Russia. It will also specify the research problem, the connected sub problems and limitations of the thesis. In order to give an overview, the chapter concludes with an outline of the thesis.

1.1 Background

Swedish MNC's have a long history of economic ties to Russia, both before the revolution of 1917 and during the Soviet era. The "new" Russia was formed in 1991 when the Soviet Union was dissolved. It has since then been a very turbulent market where uncertainty concerning the future has been the only constant. With its 150 million people, Russia has an enormous potential for Swedish companies. Hence, to build strong relationships with key partners is a particularly important issue due to the dynamic business environment that influences Western MNC's ability to operate in the country.

Today Russia is developing towards a market economy, but the structure of the old centrally planned economy is hard to erase. The process of restructuring the economic system has been slow and turbulent affecting the entire Russian society. Corruption is widespread, poverty is increasing and a large part of the population is dissatisfied with the current situation. It is, however, no surprise that the break-up of the Soviet Union and the overall demise of the planned economy have had a profound effect on the welfare of the Russian people. The reform efforts have resulted in contradictory economic and political regulations. The industry, agriculture, military, central government, and the Ruble have suffered and it is hard to predict how the Russian economy will progress since the environment is very vigorous, particularly on the political scene. Russia has successfully held one presidential, two legislative, and numerous regional elections since 1991 but right now, the political system is in a stand-by mode and the economic situation continues to be very difficult. This is a state that probably will prevail until the parliamentary elections take place in

December 1999 and the presidential election in year 2000. One factor that has influenced this situation is the failing health of President Yeltsin, which has caused a lack of policy focus in Russian politics. These factors all affect the business climate in Russia.

Foreign Multinational Companies (MNC's) are hesitating to enter the Russian market since the conditions are so volatile. This is further boosted by the fact that media reports often provide a picture of a country in chaos. This may be the case if Russia is compared to a Western country. However, if relevant knowledge about the institutional setting in Russia is collected, then the country can be more realistically assessed. This is a prerequisite for undertaking successful activities in Russia (Jansson, 1999). This dynamic environment that characterises Russia increases the importance of building and maintaining relationships with different actors such as retailers, wholesalers and other importers in order to cope with changes in the current and future business environment. Evidence suggests that these relationships that is, network ties, stem from the Soviet-era where, due to the lack of a legal infrastructure, an extensive reliance on personalised network-based exchanges were a necessity.

Even though competition is increasing with globalisation, the business world does not see the survival of the fittest, driven by mechanisms to outfight each other, but the survival of those best able to form nurturant relationships with external parties and in external conditions (Trompenaars, 1996). This implies that it is important to build sustainable relationships since only strong and close relationships can manage unexpected changes and survive in the long-term. As a result, the internationalisation of business life requires more knowledge, of particular, unfamiliar cultures existing in different countries. Understanding a country's culture will enhance an enterprise's ability to operate in that specific country. Therefore, a primary concern is to be informed about cultural differences between societies, their roots and their consequences before judging and taking action in any specific culture.

All of the above mentioned facts suggest that a well-established, working network is vital to have in the dynamic environment characterising Russia. This gives the MNC stability in its market relations and reduces the degree of uncertainty.

1.2 Research problem

Our main research problem is:

To describe, within the dynamic environment characterising Russia, how a Western MNC is managing relationships in its distribution network. The study will further explore if it is possible to build sustainable business relationships in such a volatile environment and how this should be done.

To be able describe and explore this research problem we have divided it into three sub problems.

Sub problem 1

To describe and analyse the formal and informal institutions, which have direct implications on the build-up of business relationships in Russia.

This will focus on the cultural aspects concerning Russia.

Sub problem 2

To describe and analyse a distribution network existing in the Russian consumer durable appliance market.

Factors that will be investigated are market characteristics, actors within the distribution network and linkages between them.

Sub problem 3

To illustrate and analyse the types of exchanges conducted in a dyadic business relationship and how these exchanges affect the overall atmosphere of the relationship.

This sub-problem aims to highlight factors such as the product/service-, information-, financial-, and social exchange between actors. It will also examine the atmosphere surrounding the relationships such as the degree of power/dependence, cooperation/conflict, and closeness.

1.3 Purpose

The purpose of this study is to describe how a Western MNC manages its relationships in a dynamic environment and if it is possible to create sustainable business relationships, within a very dynamic business environment.

1.4 Delimitations

The case company in this study is Electrolux and the network will be seen from its point of view. Local actors will be presented according to how they influence Electrolux's operations on the Russian market. Electrolux's products are at the high-end of the market and are directed towards end-customers who are willing to pay a higher price for consumer durable appliance products. These end-customers are almost entirely situated in greater urban areas, such as Moscow and St Petersburg (Afonina, 1999). Therefore the focus is on these two regions.

The Electrolux Group carries three brands on the Russian market, Electrolux, Zanussi and AEG. The three brands target somewhat different market segments but they will be treated on an equal basis in this thesis, referring to these as Electrolux. In those cases where brand-specific issues are discussed, the brands will be separated from each other by referring to these independently. Moreover, the focus is entirely on consumer durable

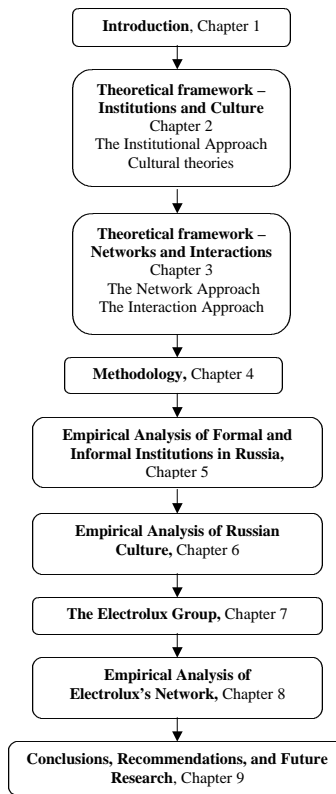
Chapter 1 - Introduction

appliances: refrigerators, freezers, washers/dryers, kitchen ranges, dishwashers and microwave ovens.

Electrolux's distributors will appear frequently in the analyses. These distributors are Electrolux's customers and undertake the relevant import, wholesale, and retailing functions unless nothing else is stated.

The time perspective taken in this thesis is from 1995 up until today since this is the period during which Electrolux has been fully involved in the Russian market. However, cultural issues affecting Electrolux's relationships have their origins in the past, making it necessary to explore events going back many years in time.

Figure 1.1 Outline of the thesis



1.5 Outline of the thesis

This thesis consists of nine chapters, which together aim towards solving the stated research problem. The introduction chapter gives the reader an overview of the subject. It also states the research problem, its underlying sub problems, purpose and the delimitations.

The theories used for collecting data and analysing the problems, are presented in the two theoretical chapters. The first chapter explains institutions that affect MNC's in a market and the second chapter focuses on network theories. The methodological chapter describes and justifies how the study was conducted and why it was done in that way.

Chapters five and six contain an empirical analysis of the formal and informal institutions that carry the greatest impact upon how to build and sustain business relationships in the environment that characterises Russia. Culture is, as seen in this thesis, the single most important factor, which is why this institution is analysed in more detail in chapter six.

In chapter seven, the Electrolux Company and especially its Russian operations are described and analysed. Its operations in Russia carry several special characteristics, especially the unclear customs clearance system, which makes it unique. As a consequence, Russian distributors have attained a central role in Electrolux's network and relationships with them are central to its business. This is analysed in chapter eight. The competitors on the Russian market are also identified and Electrolux's connections with them are examined.

Chapter nine concludes this thesis. From the theoretical framework and the empirical analysis, conclusions are drawn. These conclusions and recommendations focus on the stated research problem. In addition, future research areas are suggested.

2. Theoretical framework – Institutions and Culture

The theoretical framework is divided into two chapters. The first entails a theory concerning institutions, which set the ground rules for business in a country. Culture is an important institution to understand, in the context of this theory, especially when it comes to building and sustaining relationships in a dynamic environment. This aspect is derived from the Institutional approach (Jansson, 1999) and detailed based on theories of Hofstede (1995) and Trompenaars (1996).

2.1 The Institutional Approach

The behaviour of organisations and individuals is governed by different rule systems, *institutions*, which follow certain social programmes. The human mind is organised according to these rule systems and consequently determines how society in general is organised. Words like habits, rules, procedures and conventions are often used to describe these institutions:

“Institutions systematically direct individual memory and channel our perceptions into forms compatible with the relations they authorise. They fix processes that are essentially dynamic, they hide their influence, and they rouse our emotions to a standardised pitch on standardised issues.”
(Douglas, 1986, p 92).

There are three main characteristics of institutions. First, their rule-like or organising nature. Second, their ability to facilitate and constrain relationships between individuals and groups, that is, to govern relationships. The third characteristic of institutions is their predictability; the related behaviour is repeated over time.

The relationships between individuals and organisations can be defined as networks. The institutional setting of a country for example, influences the structure of the network. The MNC is the focus of the networks institutions model (see figure 2.1). Surrounding it are the organisational fields and the societal sectors. Both fields impact the MNC, but it participates principally

in the organisational fields where it has a more or less two-way communication with the institutions. The communication with the societal sectors is one-way, from the sectors towards the MNC. (Jansson, 1999). A more detailed definition of institutions can be used to clarify how it can be applied to networks:

“Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines, and they operate at multiple levels of jurisdiction.” (Scott, 1995, p. 33).

These three structures will be further elaborated below. The behavioural patterns differ throughout society, which is why it is possible to identify institutional complexes such as government, financial markets etc. where behaviour is reproduced in a rule-like fashion (Jansson, 1999).

2.1.1 Cognitive structures

This institutional perspective explains the established patterns of thinking that guide behaviour. This can be thought worlds and thought styles, which for example are shared by employees of an MNC. Companies operating across countries and cultures usually have several different thought worlds, depending on which part of the enterprise is examined. The cognitive structure also differs on the individual level since situations are perceived differently. What one person perceives as chaos/change/crises can in the eyes of someone else be described quite differently because of the specific knowledge and perspective they have. (Jansson, 1999).

2.1.2 Normative structures

How people behave is not only decided by their thought worlds and thought styles but also their normative structures i.e. what *values* they have and what *norms* they follow. The decisions people make are influenced by rules and goals of the enterprise, that is, norms prevalent in the specific

enterprise. Norms can be seen as a general declaration of how people should act and what type of behaviour is expected from them. Norms are closely related to values in the sense that they work as guiding principles for people, stating how things should be done within the enterprise. (Jansson, 1999).

2.1.3 Regulative structures

In order to implement norms, enforcement mechanisms are necessary. If the norms are not enforced, the enterprise will not be as effective as it can be in its operations. Consequently, incentives and sanctions must be present so that the regulative aspect is met. These can be both in the form of informal and formal rules, which in one way or the other measures performance, using sanctions and incentives to achieve specific goals; these rules of performance are commonly accepted, taken-for-granted, and persistent in nature. (Jansson, 1999).

Institutions define the “appropriate” network structures and processes, together with the role and behaviour of the enterprise. Thus, they form both a constraint and an opportunity to the focal company. The rules evolve through interaction of all actors in the network and typically, no individual actor is able to change the general rules. In a relationship, the rules can be defined in the context of unspoken, spoken, unwritten or written agreements. (Salmi, 1995).

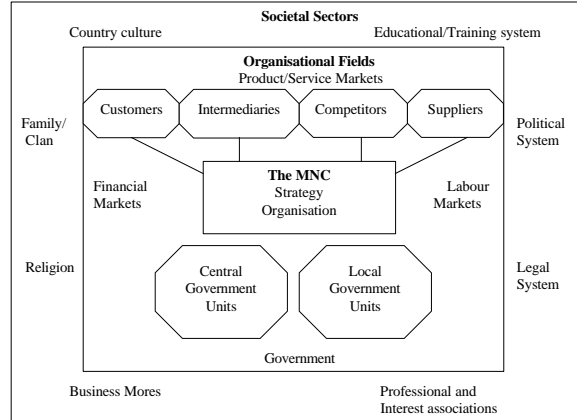
2.1.4 Formal institutions

Formal institutions are often in written form including all relevant aspects related to constitutions, laws, property rights and specific contracts. These are often a matter of formal organisations, and include rules stemming from the political, the legal and the overall economic system. Formal rules can be changed as a result of political or judicial decisions. It is much easier to change formal rules than informal rules. (Salmi, 1995).

2.1.5 Informal institutions

The informal institutional constraints are not directly observable and they are of a more intangible nature. Informal rules can supplement, modify and reinforce formal rules. Moreover, informal constraints embedded in customs, traditions, and codes of conduct are more resistant to deliberate policies. Three kinds of informal constraints are distinguished: 1) extensions, elaborations and modifications of formal rules; 2) socially sanctioned norms of behaviour; and 3) internally enforced standards of conduct. Culturally derived informal constraints will not change easily in reaction to changes in formal rules. The informal rules could take the form of sanctions, taboos, customs, traditions, and codes of conduct, ingrained into the structure of society, directing human behaviour. (Salmi, 1995).

Figure 2.1 The Networks Institutions Model

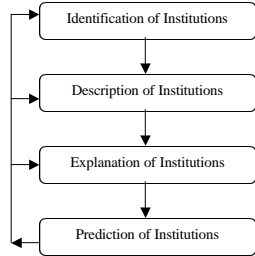


Source: Jansson, 1999.

2.2 The four stages of Institutional analysis

The Networks Institutions Model is used as a basis for analysing the macro- and microenvironment of the MNC. Four stages are used to perform this environmental analysis (see figure 2.2). First is the identification stage where major institutions are identified, followed by the descriptive stage, which illustrates the institutions in more detail. The explanation stage depicts the influence of the institutions while the final stage, the prediction stage, deals with the reproduction of institutions into the future. (Jansson, 1998).

Figure 2.2 Four stages of institutional analysis



Source: Jansson, 1999.

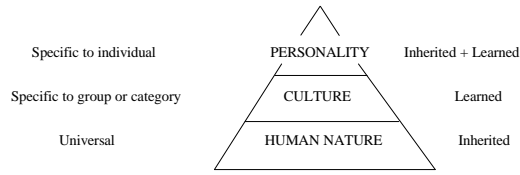
2.3 Culture

Every human being is characterised by specific mindsets, personal emotions and individual action patterns, learned during his lifetime, in the context of the social environment within which he grows up and collects his life-experience. Culture is a collective phenomenon since it is widely shared by people who lived or live in the same social environment.

It is this collective “mental programming” that separates members of one group or category of people from another. Culture is learned and not inherited since it is derived from the social environment and not from the genes. In addition, culture should be separated from human nature on one

hand and from an individual's personality on the other, although the borders between them are not clear and sharp (see figure 2.3). (Hofstede, 1995).

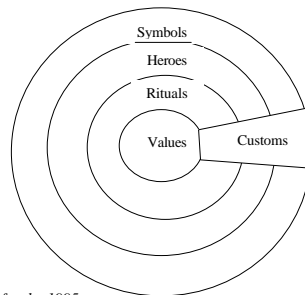
Figure 2.3 Three levels of uniqueness in human mental programming



Source: Hofstede, 1995.

The essence of culture is primarily not what is visible on the surface but is instead a matter of the shared ways groups of people understand and interpret the world. Culture consists of several layers and to understand it one has to peel back the different layers like an onion (see figure 2.4). The more one peels, the more deep-seated, not directly visible values and norms will be found. However, these values and norms are not always easy to identify.

Figure 2.4 Several layers reveal cultural differences



Source: Hofstede, 1995.

Symbols are words, gestures, pictures and objects, which have specific meaning for all those sharing the same culture. However, different cultures copy symbols from each other while new symbols can develop and old ones can disappear over time. This element of “mobility” is the reason why symbols are placed in the outer circle in figure 2.4.

Heroes refer to people, living or dead, real or imaginary, who possess certain characteristics, which are highly praised in a culture. These serve as role models for appropriate behaviour.

Rituals submit to such joint activities, which are regarded as being socially necessary for people who share the same beliefs. Social and religious ceremonies and different ways of greeting and showing respect for others are examples of rituals differing among cultures.

Customs consist of symbols, heroes and rituals and these are visible to people. The cultural meaning however, is invisible and exists solely and exactly in the special way that the customs are interpreted by members of the specific culture.

Values are the most central elements of a culture. These are broad tendencies towards preferring certain states above others. A child learns these values, subconsciously, in an early stage of life. To understand the values defined within a culture, one has to observe the way people act. This provides for an enhanced understanding of a specific culture. (Hofstede, 1995).

2.3.1 Dimensions of culture according to Hofstede

Every culture distinguishes itself from other cultures by the specific solutions it applies related to specific problems. These solutions can be referred to as dimensions of culture. Geert Hofstede (1995), the pioneer of cultural understanding identified four main cultural dimensions, which can be used in comparing different country cultures. Later on he included one

more dimension, short-term versus long-term orientation characterising various country cultures.

Power distance (PDI) refers to “in which degree the less powerful members of institutions and companies within a country expect or accept that power is distributed unevenly” (Hofstede, 1995, p. 40). In countries with low PDI the human beings try to treat each other as equals regardless of age, sex, position, etc. Imbalance between people is not desired and should be diminished. The opposite is true for countries with a high PDI, where there is an unspoken agreement among people that inequality exists and that everybody has his/her specific role in the society.

Individualism (IDV) versus *Collectivism* is related to whether ties among individuals are loose or not. Loose-fitting ties between members in a society characterise individualistic countries where everyone is expected to take care of himself and his closest family. Individual freedom is highly regarded and the individual is considered as being responsible for his own future. In collectivistic cultures, people are integrated in strong, tight-fitting in-groups, which during a person’s whole lifetime continue to protect him in return for his unconditional loyalty, to the collective group. Unity and harmony are the main priorities.

Masculinity (MAS) versus *Femininity* concerns the issue of assertiveness and combat, versus modesty and compromise. In a masculine culture the social gender roles are clearly different: men are assumed to be forward oriented, tough and competitive while women are more focused on tenderness and quality of life. In a feministic society the social sex roles are more over-lapping and both genders are characterised by modesty, softness and focus on life quality.

Uncertainty avoidance (UAI) reflects the different ways people in a society deal with the fact that the future is uncontrollable. Feelings of uncertainty and the behaviour to handle them reflect a country’s cultural heritage and

are transferred and reinforced through such basic institutions as the family, the school and the state. The behavioural patterns are mirrored in values that the greater part of the members collectively shares. In societies characterized by a high UAI written rules and laws have pole positions and the need for predictability is strong.

2.3.2 Dimensions of culture according to Trompenaars

Later but similar research by another Dutch researcher, Fons Trompenaars (1996), implied that there are seven categories or dimensions distinguishing different cultures. The first five categories concern issues that arise from relationships among human beings. These value orientations greatly influencing the way of undertaking and managing business operations as well as responses when faced with moral dilemmas. The relative location along these dimensions guides individuals' beliefs and actions through life. Category six relates to the passage of time and the final dimension relates to the individuals' relationship towards the environment.

2.3.2.1 Universalism versus Particularism - rules versus relationships

Universalism stresses that everyone should be treated in a similar way according to general rules; great emphasis is placed on conceptual societal codes. A universal, or rule-based, behaviour tends to be rather abstract. In particularistic cultures far more attention is given to present circumstances and *personal relationships* are more important than any given set of general rules. In a culture that is influenced by particularistic values, a person of unique importance to an individual should be treated better than others, no matter what the rules say.

Table 2.1 Differences between Universalism and Particularism

Universalism	Particularism
Focus on rules	Focus on relationships
Legal contracts are readily drawn up	Legal contracts are readily modified
A trustworthy person is the one who honors their word or contract	A trustworthy person is the one who honors changing mutuality
There is only one truth or reality, which has been agreed to	There are several perspectives on reality, relative to each participant
A deal is a deal	Relationships evolve

Source: Trompenaars, 1996.

2.3.2.2 Individualism versus Collectivism - the group versus the individual

This dimension concerns whether people primarily regard themselves as individuals or as members of a group. Do we relate to others based on what each one individually wants, always trying to negotiate in the face of differences, or do we focus on shared public concepts and collective good? In individualistic cultures, the focus is on individuals and how they can contribute to the collective, if and as they wish. Self-orientation is a crucial element in these cultures. In a collectivistic culture, the centre of attention is on the in-group, where individuals share values, beliefs, etc.

Table 2.2 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

Source: Trompenaars, 1996.

2.3.2.3 Neutral versus Affective - the range of feelings expressed

The neutral versus affective dimension deals with to what degree it is accepted to express feelings in a society. In a neutral culture, interactions among human beings are expected to be objective, fairly dispassionate and detached from feelings. Members of cultures that are affectively neutral do not show their feelings but keep these controlled and subdued, seeking an indirect response from others. In contrast, showing emotions is widely accepted in affective cultures. People express their feelings openly, laughing, smiling, grimacing, scowling and gesturing, seeking a direct

emotional response. However, neutral cultures are not necessarily cold and unfeeling, nor are they emotionally hampered. The feelings expressed are just not as intense as in affective cultures.

Table 2.3 Differences between Neutral and Affective

Neutral	Affective
Do not reveal what they are thinking or feeling	Reveal thoughts and feelings verbally and non-verbally
May (accidentally) reveal tension in face and posture	Transparency and expressiveness release tensions
Emotions often dammed up will occasionally erupt	Emotions flow easily, effusively, vehemently and without inhibition
Cool and self-possessed conduct is admired	Heated, vital, animated expressions are admired
Physical contact, gesturing, or strong facial expression often taboo	Touching, gesturing and strong facial expressions are common
Statements are often read out in a monotone way	Statements declaimed fluently and dramatically

Source: Trompenaars, 1996.

2.3.2.4 Specific versus Diffuse - the range of involvement

Cultures differ when it concerns how human beings treat and expect others to treat them in different situations and relationships. Both approaches are about “strategies” on how to get to know other people. In a specific-oriented culture, an individual is judged and treated in a specific way in a specific context. In other settings, the treatment may differ since every area where people encounter each other is considered apart from some other area. Work and private life are sharply separated.

In a diffuse culture, human beings engage others in various areas of their lives, and at several levels of personality at the same time. An authority in a specific area is expected to know best due to his position and the individual’s standing and reputation follows the carrier, independently of context or specific situation. What human beings of a specific culture see as impersonal, is often something that members of a diffuse culture view as highly personal, and vice versa.

Table 2.4 Differences between Specific and Diffuse

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

Source: Trompenaars, 1996.

2.3.2.5 Achievement versus Ascription - how status is accorded

Different societies or cultures confer individual status in different ways. The issue focuses on whether status is earned through what the person has achieved, or if birth, kinship, gender, age, educational record or connections within the society give status to a person. In the first case, it is a matter of achievement, referring to *doing*, while the second one is a matter of ascribed status, referring to *being*. In an ascribed culture, a person “is” simply his status, which does not require any rational justification. “Hard work” and “getting things done” are widely appreciated in achievement-oriented cultures whereas a focus on “respect for the elders” and “blood is thicker than water”, reflect an ascription culture. Ascribing and achieving can be exclusive of each other, but this is not necessarily always so. An individual’s achievement can drive his ascription, and/or the element of ascribing can drive achieving.

Table 2.5 Differences between Achievement and Ascription

Achievement	Ascription
Use of titles only when relevant to the competence a person brings to the task	Extensive use of titles, especially when these clarify status in an organisation
Respect for superiors in hierarchy is based on how they perform their job and the knowledge they have	Respect for superiors in hierarchy is seen as a measure of a person’s 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 considered qualified by their specific background

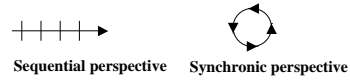
Source: Trompenaars, 1996.

2.3.2.6 Attitudes towards time

There exist differences concerning how people look at time (see figure 2.5). Depending on different assumptions about time, people approach tasks differently and act accordingly. These varying ways of viewing time have different consequences depending on whether the main focus is on the past, the present or the future.

When time is considered as being sequential - a series of passing events - time is seen in terms of discrete events - minutes, hours, days, months, and years each passing in a never-ending succession. A sequential approach to time reflects a “critical path” worked out in advance, with a specific time-allowance for the completion of each stage - human beings here hate disturbances in scheduling or agenda, by unanticipated events.

Figure 2.5 Different perceptions of time



Source: Usunier, 1996.

In a synchronic time perspective, the past, the present and the future are all interrelated with each other - ideas about the future and memories of the past both shape present actions. A circle best reflects this view where time is thought of as revolving, so that the minutes of the hour repeat, as do the hours of the day, the days of the week and so on. An individual from a synchronic culture often puts emphasis on a number of activities taking place in parallel. There is an established final goal, with numerous and sometimes interchangeable stepping-stones to go through. A person can however “skip between the stones” on his way towards reaching the final target.

Table 2.6 Differences between Sequential and Synchronic

Sequential	Synchronic
Only do one activity at a time	Do more than one activity at a time
Time is sizable and measurable	Appointments are approximate and subject to "giving time" to significant others
Keep appointments strictly; schedule in advance and do not be late	Schedules are generally subordinate to relationships
Relationships are generally subordinate to schedule	Strong preference for following where relationships lead
Strong preference for adhering to initial plans	

Source: Trompenaars, 1996.

Time has a meaning not just to individuals but also to whole groups or cultures. Kluckhohn and Strodtbeck (through Trompenaars, 1996) have identified three orientations on how to deal with time. Different cultures focus more or less on past, present or future orientations.

- A present-oriented culture is relatively timeless, traditionless and ignores the future;
- A past-oriented culture is mainly concerned with maintaining and restoring traditions, in the present and;
- A future-oriented culture focuses on a more desirable future, aiming towards arriving at the same.

Different orientations are also reflected in the quality of human bonds within an organisation, and between the enterprise and its partners. Any lasting relationship combines past, present and future with ties of affection and memory. The relationship per se provides justification and is enjoyed as a form of durable companionship extending both historically and in the future. A culture concerned with a sequential time approach tends to see relationships as being instrumental while a synchronic approach views the relationship as being a matter of long-term commitment.

Table 2.7 Differences between Past, Present, and Future

Past	Present	Future
Focus on history, origin of family, business and nation	Activities and enjoyments related to present time are most important	Much focus on prospects, potentials, aspirations, future achievements
Motivated by trying to recreate a golden historic age	Plans not objected to, but rarely executed	Planning and strategizing done enthusiastically
Show respect for ancestors, predecessors and older people	Show intense interest in present relationships, “here and now”	Show great interest in future potentials
Everything viewed in the context of tradition or history	Everything viewed in terms of its contemporary impact and style	Present and past used, even exploited, for future advantage

Source: Trompenaars, 1996.

2.3.2.7 Attitudes towards the environment

The last cultural dimension focuses on the attitude which people have to their natural environment, and the extent to which this can be controlled.

In certain cultures the focus is on controlling nature and motivations and values are derived from this. This orientation reflects an inner-directed culture where human beings believe that they control their destinies and what happens to an individual is due to what he is doing. Success is identified with control over outside circumstances.

In an *outer-directed* culture, individuals are confident that man is part of nature and must succumb to its laws. The reference point for human beings lies outside themselves. Nature is seen as something to be feared and to be followed and the world seen as being more powerful than individuals. Man should strive to live in harmony with the surrounding environment. However, all cultures take some notice of what is inside or outside of nature and the two orientations sometimes overlap.

Table 2.8 Differences between Internal and External Control

Internal control	External control
Often dominating attitude bordering on aggressiveness towards environment	Often flexible attitude, willing to compromise and keep the peace
Conflict and resistance means that you have convictions	Harmony and responsiveness, that is, sensibility
Focus is on self, function, own group and own organization	Focus is on “other”, that is customer, partner, colleagues
Discomfort when environment seems “out of control” or changeable	Comfort with waves, shifts, cycles if these are “natural”

Source: Trompenaars, 1996.

2.4 Conclusions from chapter two

This chapter of the theoretical framework dealt with various institutions and how they affect MNC's in a country. The Networks Institutions model is an all-embracing method for assessing these institutions in order to deem what strategy and organisation the MNC should adopt in the specific country. The research problem in this thesis is however more specific than that. Therefore the legal system, business mores, the financial market, the product/service market, and country culture will be described and analysed since they are the most relevant institutions to look at in the context of this thesis. The country culture is especially significant since it shapes other institutions. Looking at the cultural theories of Hofstede (1995) and Trompenaars (1996) gives a broader view of this institution and consequently a better understanding of other institutions. These cultural theories overlap each other in many aspects and for reasons explained in the beginning of chapter six, Trompenaars dimensions will be used for the cultural analysis.

The culture also shapes the actors within a network and how they operate. Thus, the cultural understanding provides the basis for comprehending the network and, the interactions within it, which will be described in chapter three.

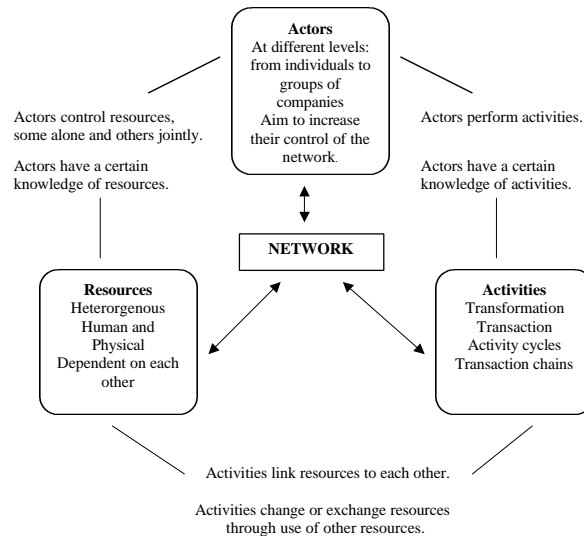
3. Theoretical framework – Networks and Interactions

This chapter deals with the Network approach based on Håkansson & Johansson (1992). This theory describes how actors are linked together through different interdependencies, which form a network. The Interaction approach by Håkansson (1982) is used to get a closer look at these interdependencies through examining a dyadic relationship.

3.1 The network approach

The network approach was developed to describe and analyse how actors are connected to each other within an industry (see figure 3.1). The basic elements of the network model are actors, activities and resources. It is a further development of the dyadic relationship, described in the interaction model (see section 3.5). The aim is to describe relationships between two enterprises.

Figure 3.1 The network model



Source: Håkansson & Johansson, 1992.

3.1.1 Actors

Actors can be both enterprises and individuals, who are in some way connected within a network. These actors control resources and perform activities. In exchange processes between actors, relationships are developed, establishing the foundation of a network. Actors in a network are goal oriented, often striving to increase their control in the network. Through experience, actors in a network have developed different knowledge about resources, activities and of other actors in the network. This knowledge and these relationships are used in the struggle for power with other actors. This struggle is not just present between actors but can

also be found within actors. (Håkansson & Johansson, 1992). Actor bonds describe all the links that an actor has with other actors and this results in a strategic identity of the specific actor (Håkansson & Snehota, 1995).

3.1.2 Activities

Through combining, developing, exchanging, or creating resources, activities occur. A distinction can be made between two types of activities. Transformation activities imply that the specific activity changes the resources, in some way. One actor always controls this process. Transfer activities are those where the activity changes the control of a resource, from one actor to another. More than one actor never controls this process.

When linked to each other, these activities form activity cycles. Both transfer and transformation activities are needed in order to form a complete activity cycle. Several actors are needed to perform this cycle, which means that relationships are formed in order to accomplish a transaction chain. (Håkansson & Johansson, 1992).

3.1.3 Resources

To make activities possible, several types of resources are needed, such as equipment, plants, manpower, knowledge, and financial capital. Actors control all resources, either single-handedly or together. Resources are heterogeneous and the scarcity of specific resources often determines how important it is to have control over it.

As with activities, distinction can be made between transformation and transfer resources. Combining heterogeneous resources makes specific resources more valuable, depending on how these are used and for what activities they are necessary. New knowledge and new possibilities can occur in this process. (Håkansson & Johansson, 1992).

3.2 The focal firm

The network influences the individual enterprise in a number of ways. The relation to its environment can be seen as interactive, since operations of other actors affect the enterprise. Existing actors, resources and activities in the network steer the development of a specific enterprise. However, these factors only guide the enterprise to the extent that the focal firm enacts it and depending on the importance the focal firm perceives that the different factors have. (Salmi, 1995).

A distinction should also be made between network relationships among individuals and organisations. Personal relationships may govern the way companies interact with each other. Thus, it is important to consider relations both on an organisational and personal level.

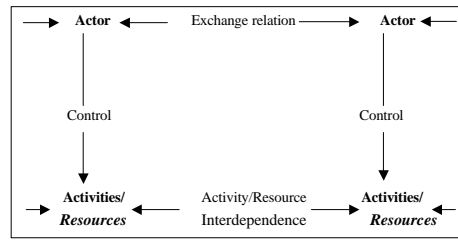
3.3 Two levels in the network

In order to obtain resources from other actors in the network, an actor needs to develop and maintain exchange relationships with these. The most recent conceptualisation of industrial networks makes a distinction between two levels in the industrial system:

- the network of exchange relationships between industrial actors; and,
- the production system, which consists of resources and activities.

The relations between these two levels are shown in figure 3.2. (Håkansson & Johansson, 1993).

Figure 3.2 Network relations



Source: Håkansson & Johansson, 1993.

The network of exchange relationships between actors is a structure that governs the production system. In business networks, the activity-based connections are more important in the short-term while actor-based connections are more vital in the long-term. The longer time perspective leads to a focus on actor's intentions and interpretations - the objective interdependences driven by industrial logic become less important. (Håkansson & Johansson, 1992).

3.4 Network linkages¹

The relationships in a network can be both of a direct and of an indirect nature. The direct relationships are formalised connections between actors, which are easy to distinguish. A dyadic relationship between enterprise A and B can however also be affected by enterprise A's relationship with C. Indirect relationships thus appears between enterprises B and C, resulting in a triad. Changes in a dyadic relationship therefore often have an impact on other relationships. The third party that is affected by a change in a dyadic relationship can react to this change in different ways. Either, it can adapt to the new conditions or it can counteract and change its own relationships so that the outcome will be equal to conditions prevailing before the change was initiated.

¹ This section is based on Smith & Laage-Hellman (1992)

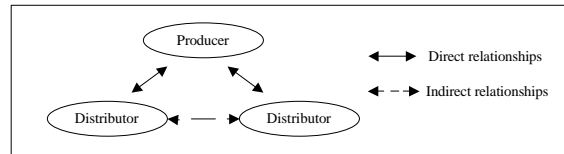
Several triads can be identified in a distribution network (see figures 3.3, 3.4, and 3.5).

- Producer - Distributor - Distributor
- Producer - Producer - Distributor
- Producer - Distributor - Wholesaler - Retailer

3.4.1 Producer – Distributor – Distributor

A producer often has more than one distributor, with whom he interacts in his network. These relationships have various effects on the producers’ relationships. Positive effects can be, for example, the development of similar logistics systems, with the distributors. The same technological and informational arrangements can also be used to support several independent distributors, lowering the transaction costs. Making these features transferable to several distributors is of course preferable for the producer. However, it can cause problems in the relationships with specific distributors since some of these can be more valuable than others (for example, being able to distribute the products to a greater public), which calls for closer cooperative relations with the former ones. The impact of such activities is therefore somewhat mixed and it is important to find the right balance in these situations. From the producer’s viewpoint, having more than one distributor is usually favourable since it increases the producer’s bargaining power.

Figure 3.3 Producer – Distributor - Distributor

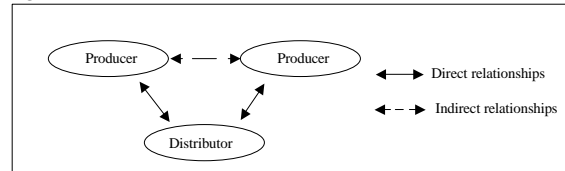


Source: Own elaboration, 1999.

3.4.2 Producer – Producer - Distributor

Two producers sharing the same distributor is a common element in distribution networks. When the two producers are supplying the same products to the distributor there tends to be a negative relationship between them. The specific distributor here is in a beneficial position since he can play the two producers against each other, thus increasing his bargaining power in the relationship. If the producers are supplying complementary products the relationship can be more beneficial for all involved parties, especially if synergy effects occur.

Figure 3.4 Producer - Producer - Distributor



Source: Own elaboration, 1999.

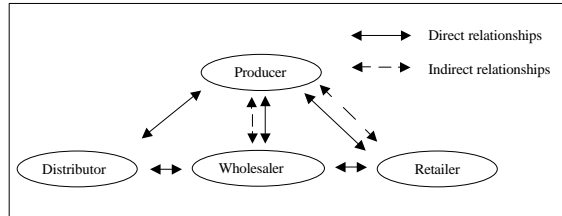
3.4.3 Producer – Distributor – Wholesaler – Retailer

Taking all actors in a distribution network into account can make it somewhat hard to define all relevant relationships and level of dependencies. From the distributors point of view it is possible to have relationships with all parties in the distribution chain even though this can be a cumbersome task. It is important to evaluate what relationships the focus should be on and not try to satisfy everyone unless the producer has the necessary and adequate human resources to do so.

In this case, the producer may not have the necessary means to provide his products to the entire range of possible end-customers. This type of arrangement will therefore be beneficial to all parties, even though the transaction costs will be high. There are several dependencies in such constellations. The producer depends on whether the relationship chain

between the distributor, wholesaler and retailer is functioning, for his products to reach the market and also to get market information. The retailer depends on the relationship between the distributor and the producer functioning properly, so that he receives the products. The producer may wish to establish a closer contact with the retailer, in order to lower the transaction costs, which is why this link sometimes may be direct. However, this will almost inevitably cause conflicts with the distributor. Such steps should therefore be carefully thought through before being initiated.

Figure 3.5 Producer – Distributor – Wholesaler - Retailer

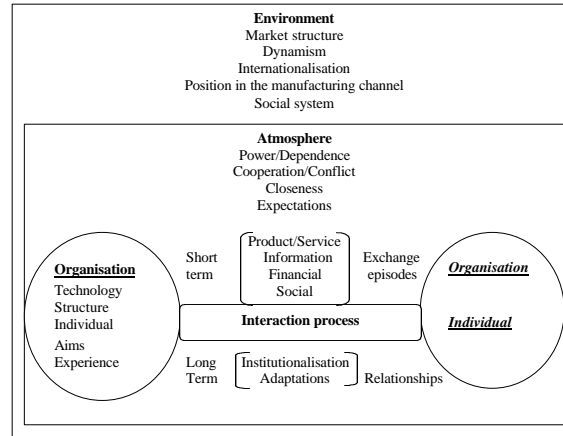


Source: Own elaboration, 1999.

3.5 The Interaction Approach

The interaction model analyses the interaction process in a dyadic relationship (see figure 3.6). It comprises four basic elements: the interaction process, the participants in this process, the environment and finally, the atmosphere affecting and being affected by the interaction process. (Håkansson, 1982).

Figure 3.6 The interaction model



Source: Håkansson, 1982.

3.5.1 The interaction process

The interaction process can be divided into short-term episodes and long-term relationships. There are four elements of exchange in short-term episodes. The *product or service exchange* is usually the foundation for all exchanges. The type of product/service and the importance it has for the actors involved, will consequently determine the importance of the relationship. The *information exchange* is another important part of the interaction process. Key aspects here are the type of information, which is exchanged (for example, technical- and economic information) and the width and depth of this information. The information can be transferred both personally and impersonally, and can be more or less formalised.

The quantity of financial resources exchanged in a business relationship indicates the importance of the relationship. The possibility to exchange

from one currency to another and how stable the exchange rate is must be considered in this context. Finally, the *social exchange* between two parties has to be considered. This exchange can reduce uncertainty between the parties, since it can tie them together in between actual transactions. Seen in the long-term perspective, the social exchange will gradually bring two parties closer – the degree of mutual trust will increase, which makes the agreements less formalised and more personalised. This is of central importance in the process of building stable business relationships.

3.5.2 Bringing the episodes together

The various types of episodes gradually create patterns, which establish the ground rules for relationships between enterprises. These contact patterns between enterprises are important to study since they can provide information about a relationship. Whether or not the enterprises are becoming closer to each other, can depend on any one of these episodes and how these are managed. Actors involved in the interaction process are likely to adapt to each other in the course of the relationship. This can result in cost reductions, increased revenue and changes in the control element of the exchange. The degree of adaptations made in an interaction between two actors is often part of the specific strategy that a specific actor pursues in a relationship. Consequently, it is important to monitor these adaptations in order to see what type and nature of relation the interaction might or might not bring.

3.5.3 The interacting parties

The interaction process does not solely depend on the episodes mentioned above but also on the unique characteristics that the enterprises in the relationship hold, both at the organisational and the individual level. The most important of these characteristics are discussed below.

The respective *technological level* of the interacting actors is vital to the interaction process. The two actors here must have a similar level in order for the relationship to be fruitful for both actors. Adaptation is often made

to meet each other's needs. This adaptation is a basic condition for the interaction. The *size, structure and strategy* of an enterprise also influence the relationship. A large enterprise with an unlimited amount of resources stands a relatively better chance of getting the upper hand in a relationship. The structure of an enterprise in terms of centralisation, specialisation and formalisation affects the relationship in different ways, for example, with regard to how the communication is undertaken, and the number of people involved. The last variable, strategy, will of course affect the way in which relationships with different actors are handled depending on what future steps that the specific enterprise is aiming to take.

The *organisational experience* of an enterprise determines how well it is able to handle different relationships. The knowledge from previous interactions with various actors helps an enterprise to decide what commitment and importance it should attach to its diverse relationships. Finally, *individuals* from the two interacting actors will shape the interaction, according to their personalities, experiences and beliefs.

3.5.4 Atmosphere

There are a number of external factors that influence a relationship. This is referred to as the atmosphere, which surrounds a relationship. This is best described in terms of power/dependence relationships, found between enterprises, and/or in the amount of conflict/cooperation that exists in such a relationship. The atmosphere in a relationship can be analysed along two dimensions. The *economic dimension* focuses on the possibility to reduce costs (for example, transaction costs, production costs etc.) by developing a closer relationship with another enterprise. It is important to weigh the advantages of a close relationship (including lower costs and increased information about the partner) with the opportunity costs, stemming from excluding relationships with other actors in the market. Finding a balance here is of utmost importance to an enterprise. The *control dimension* examines ways to reduce uncertainty in a relationship, most commonly by increasing the power of one enterprise over some other enterprise.

3.5.5 The Interaction Environment

The interaction between two actors must be seen in the context of the network environment, providing for a number of aspects, which influence the interaction process.

The *market structure* surrounding a dyadic relationship is important to consider, since it reveals the concentration of both buyers and sellers. This concerns the issue of whether the market can be treated on a national level, or if it should be viewed in a wider international context. It also exposes, depending on the level of market concentration, the number of alternatives available to an actor and may put pressure on an actor to create stable relationships. *Dynamism* will affect the dyadic relationship and the network in two opposite ways. First, a close relationship increases the knowledge about the other actor and his actions within the relationship. Second, a dynamic environment may hurt an enterprise when it depends on only a few relationships. This can make it vulnerable in an environment characterised by rapid changes.

The level of *internationalisation* of a particular product market affects the operations of an enterprise. Its organisation must be adjusted to handle international relationships and this requires special knowledge. The *position in the manufacturing channel* positions the enterprise in relation to other enterprises on the market and makes it more or less dependent on other actors in the production/distribution channel. Finally, the *social system* will have an effect on relationships especially in an international context. Attitudes and perceptions towards certain enterprises and countries can have a great impact on a dyadic relationship.

3.6 Conclusions from chapter three

It is the actors that are of special interest in the network since they form the relationships. Therefore their interactions are further elaborated in the interaction approach, which takes a closer look at a dyadic relationship and the elements that forms it. All aspects of this model will be analysed.

The Networks Institutions Model (see figure 2.1) includes a network perspective but it is not as comprehensive as the network model, which is why the network model is chosen as the basis for analysing the network. The network model in its turn overlaps with the interaction model in some aspects concerning specific relationships. However, the interaction model is more detailed in this aspect, which is why the business relationships will be analysed according to it (see chapter eight).

4. Methodology

"Methodology represents the principal ways in which sociologists act on their environment; their methods, be they experiments, survey, or life histories, lead to different features of this reality, and it is through their methods that they make their research public and reproducible by others" (Denzin, 1978, p. 6).

This chapter deals with the determination of research strategy and sources of data. It also discusses issues concerning the scientific approach, research method and sampling. It concludes with a consideration of validity and reliability related to this thesis.

4.1 Research strategy

There are several research strategies for undertaking social science research. The five major ones are experiments, case studies, surveys, histories and the analysis of archival information. These different research strategies imply different ways of collecting and analysing empirical evidence, providing for various advantages and disadvantages. The benefits and the shortcomings of a particular research strategy depend on three conditions: (a) the type of research question being posed; (b) the control an investigator has over actual behavioural events; and, (c) the focus on a contemporary as opposes to a historical phenomenon. Even though various strategies have their own specific characteristics, the boundaries between the strategies are not always clear and sharp. (Yin, 1994).

Table 4.1 Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control over behavioural events?	Focuses on current events?
Experiment	how, why	yes	yes
Survey	who, what, where how many, how much	no	yes
Archival analysis	who, what, where how many, how much	no	yes/no
History	how, why	no	no
Case study	how, why	no	yes

Source: Yin, 1994.

If the research question focuses on “who”, “what”, “where”, “how many” or “how much”, survey strategies or the analysis of archival records are likely to be the best choice. This is because these two strategies are advantageous with regard to the discrepancies of the incidence or prevalence of a phenomenon, or when the research goal is to predict certain outcomes. In addition, case studies, histories and experiments are more suited to take care of questions of the type “how” and “why”, since such questions mostly deal with operational links, which have to be traced over time, rather than frequencies or incidence. (Yin, 1994).

A distinction also has to be made between the researchers' ability to control and to access behavioral events. Surveys, archival analyses, histories and case studies do not require control over the events, as is the case when conducting an experiment, where events can be manipulated directly, precisely and systematically and held under strict control. Surveys and case studies concentrate upon recent or contemporary events. This is also true for experiments, with the difference that experiments create themselves the specific situations investigated. Histories focuses on past phenomena and

archival analyses may be used with regard to either contemporary or historical events. (Yin, 1994).

4.1.1 Case study

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.

The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points. First, it relies on multiple sources of evidence, with data needing to converge in a triangulating fashion. Second, it benefits from the prior development of theoretical propositions to guide data collection and analysis

In brief, the case study is the preferred strategy when “how” or “why” questions are being posed, when the investigator has little or no control over events, and when the focus is on a contemporary phenomenon within some real-life context. The main strength of a case study is its ability to deal with a full variety of evidence – documents, artifacts, interviews, and observations, which other research strategies cannot handle. In other words, the case study comprises an all-encompassing method – it provides for the design incorporating specific approaches to data collection and analysis, and to retain the holistic and meaningful characteristics of real-life events. (Yin, 1994).

Among the different types of research strategies, a case study design is used to describe a single unit or bounded system, for example an individual, a program, an event, a group, etc. The most important aspect may be to properly define the object of the study. This should be investigated based on those variables, which are important for understanding the specific phenomenon.

In this thesis, the choice has been to undertake a case study. The main reason is that the aim is to answer a “how” question, focusing on a contemporary event. It is obvious that there is no control over the phenomenon studied, which is not required in a case study. Another reason is that a case study allows using multiple sources of data, for example documents, interviews and observations. In this thesis, data have been collected according to theories concerning institutions and culture, developed in chapter two, and industrial networks and dyadic business relationships, developed in chapter three.

4.1.2 Designing case studies

There are four major types of case study designs: single case holistic design, single case embedded design, multiple case holistic design, and finally multiple case embedded design.

Table 4.2 Designing case studies

	Single-case designs	Multiple-case designs
Holistic (Single unit of analysis)	Type 1	Type 2
Embedded (Multiple units of analysis)	Type 3	Type 4

Source: Yin, 1994.

A distinction can be made between single- and multiple case designs according to how the research question is posed. A single case design is the most favourable choice when testing a well-formulated theory, when the case represents an extreme or unique case, or when an investigator has an opportunity to observe and analyse a phenomenon, previously inaccessible to scientific investigation (revelatory case). However, there are also risks

involved and single case designs require careful investigation of the case being studied in order to minimise misrepresentation.

If the study includes several cases, a multiple case design is the preferred choice. The advantages with conducting evidence from more than one case are that the study might be more persuasive and robust. The drawback of a study with multiple cases is that it can be very resource- and time consuming.

A separation is made between holistic and embedded case studies depending on whether the case study focuses on an overall global phenomenon or, on several subunits. The holistic design is advantageous when no logic subunits can be identified, and when the relevant theory underlying the case is itself of a holistic nature. If subunits of analyses can be identified, so that a more complex, or embedded, design can be developed, this often provides for significant opportunities for undertaking an extensive analysis, augmenting the insight stemming from the single case (Yin, 1994).

This thesis focuses on using a single holistic case study design (type 1). The most significant parts of the different theories described in the theoretical framework have been applied to this case. The theories have all been tested in similar previous studies. Since the network approach is of a holistic nature, the choice is to implement this for one case, instead of several, to provide for depth in the analysis. This decision was also taken due to time limitations – several cases would have been difficult to study in depth.

4.2 Scientific approach

The most common types of scientific approaches are exploratory, descriptive and explanatory research. The *exploratory* approach is used when there is little or nothing known about the phenomenon studied, or within a certain area of interest. Problems are identified and structured and

the goal is to develop hypotheses and propositions for future inquiry. The aim of a *descriptive* approach is to describe an event, that has previously been explored, and to study the development of the specific phenomenon under investigation. Problems are analysed and conclusions are drawn but it is not steered by generalisations or formulations of a universal hypothesis. The objective of an *explanatory* approach, also known as *causal* approach, is to demonstrate what cause produces a certain effect, and propositions about the outcome are tried. (Yin, 1994).

In the beginning of this study an exploratory approach was chosen in order to become more familiar with the subject and, to explore what theories that could be used. This was necessary since we initially only had a layman's knowledge of the consumer durable appliance market and the development of relationships in Russia. The next step was to identify and structure the research-problem and the approach applied became a descriptive one. The aim here was to illustrate how a Western MNC, operating in a dynamic environment, has established its network, how these relationships have developed and the current status of the network at large. After all the information was collected and analysed, it was possible to draw conclusions and find out if and how a Western MNC possibly could build sustainable relationships in such a volatile business environment as that of Russia.

4.3 Research method

There are two principal research methods, qualitative and quantitative research.

4.3.1 Quantitative research

Applying a quantitative method, the researcher controls and defines what relationships are of particular interest, based on the questions asked. The researcher often collects less information than when a qualitative method is applied and focus is instead on several research units, which makes the

research broad. Numbers are usually used to describe large parts of the phenomenon. (Holme & Solvang, 1997).

4.3.2 Qualitative research

Qualitative research is based upon the philosophical assumption that individuals interacting in a social world construct reality. It is used to make sense of what goes on in the world. The researcher himself collects and analyses the data. Collecting the data usually involves fieldwork, for example, to learn about another country culture and the way business is conducted within it. It is necessary to undertake data collection on site in order for the research to be valid. (Merriam, 1998).

Qualitative research is primarily of an inductive character. It is not the main objective of the researcher to test existing theory (deductive) but, instead to build his own concepts, hypotheses and theories. The observations and fieldwork is conducted allow the researcher to build theory based on data collected in the field. Consequently, it is not about finding data that can match the existing theory but to explain a phenomenon by introducing elements of a new theory (Merriam, 1998). In introducing this new theory the researcher primarily uses a descriptive method. This means that words and pictures are preferred over numbers, in describing the specific phenomenon (Holme & Solvang, 1997).

The study in this report is qualitative since it is based on data collected from field studies in Russia, which is the basis of the analysis. However, an attempt to work in an inductive sense, building a personal theory, has not been the objective. The study has been more of an abductive character, using parts of existing theories in a new area. Thus, the data have been collected and analysed governed by the developed theoretical framework.

4.4 Data collection

The choice of data can be of two different kinds, depending on whether the data has to be collected by the researcher (primary data) or, if it already

exists (secondary data). Using both these sources of data increases the validity of a study, since the data can be confirmed by many sources.

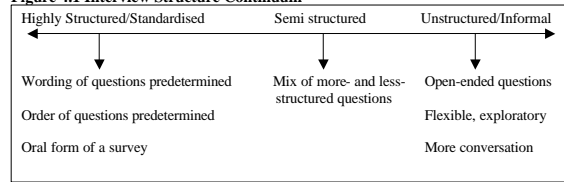
4.4.1 Primary data

In order to solve certain specific problems, new data may have to be collected, to be able to answer a particular question. This new data is generated by the way of observations, interviews or surveys. The main data collection method of this thesis has been qualitative interviews with respondents in Helsinki, Moscow and St. Petersburg. The in-depth interviews conducted lasted between one and two hours. Some of the cultural aspects in this thesis have been collected through observations, during visits to Moscow and St. Petersburg (October 25-31, 1999).

4.4.1.1 Interviews

The most common form of primary research is probably based on interviews, especially when the researcher is searching for in depth information about a phenomenon. There are several types of interviews to choose from. The amount of structure desired in the interview ultimately decides which type will best suit the purpose of the interview. The interview structure ranges from highly structured, questionnaire driven interviews, to unstructured, informal interviews (Merriam, 1998).

Figure 4.1 Interview Structure Continuum



Source: Merriam, 1997.

Highly structured interviews give the researcher an opportunity to gather common sociodemographic data from the respondents. It can also be used

if the researcher wants the respondents to answer a statement or define a concept. The problem with this type of interview is that it does not allow the respondents to speak freely about the subject. This may lead to misunderstandings since the respondents may interpret the questions differently. Semi structured interviews entail having preset questions but this structure allows the interviewer to get certain information from different respondents. Consequently, this structure is more flexible and the researcher has the opportunity to elaborate on certain topics, as the interview proceeds. The last type is the unstructured, informal interview. This type is essentially exploratory and is used when the researcher wants to learn about a topic. The questions are made up as the interview proceeds, in order for the researcher to gain insights into a specific phenomenon (Merriam, 1998).

For this thesis, 16 interviews have been undertaken using, primarily, semi-structured interviews. These were used because it gave the opportunity to find out more about specific areas as a function of the special knowledge of the person interviewed. It also allowed having a discussion about the subject, thus clarifying matters as the interview went along. Nine of these interviews were conducted with employees of Electrolux in Moscow and three with Electrolux employees in St. Petersburg. The first interview, with Dmitry Strashnov, Sales Director in Moscow, gave an initial understanding of the market and Electrolux's operations in Russia. He was the first employee of Electrolux in Russia, so he had all the background information needed. All other interviews with employees at Electrolux focused on the 3 specific research problems of the study. The remaining four interviews were conducted with Electrolux's distributors, two in Moscow and two in St. Petersburg. These interviews also focused on the research problem and provided for having a view on the complexity of the problem, from the distributors point of view.

One unstructured informal interview was also conducted, in the beginning of the case study, to become familiar with the various aspects of the

phenomenon. This was done with Ilpo Helander, President of Electrolux North-East region. Since he is stationed in Helsinki, the interview was conducted over the phone.

4.4.2 Secondary data

Data already collected for the same purpose or for another reason may be of high value when trying to solve a specific research problem. This data, called *secondary data*, ranges from statistics and studies of books, articles and journals. Some data in this report has been collected from databases (mainly ABI/Inform Global, AffärsData Tidningsdatabasen, Financial Times and FT Discovery), the Internet, the Economics library at Gothenburg University, Stadsbiblioteket in Gothenburg, Electrolux annual reports and information brochures.

The secondary sources concerning the consumer durable appliance market in Russia were checked with Electrolux employees in Russia, to ensure the correctness of the data. Several facts turned out to be contradictory to the information they had. This affirmed the fact that consistent statistics and reliable information is hard to come by in Russia. Where the information differed, the first-hand information acquired from Electrolux, was used in this study.

4.4.3 Sampling

The two basic types of sampling are *probability* and *non-probability* sampling. The former allows the researcher to generalize results of the study from the sample of the population, from which the sample was drawn. However, since generalisation in a statistical sense is not a goal of qualitative research, non-probability sampling is the method of choice for most qualitative research. The most common form of non-probabilistic sampling is called *purposive* and is based on the assumption that the investigator wants to discover, understand, and gain insight, and therefore must select a sample from which the most can be learned. In qualitative case studies, two levels of sampling are usually necessary. The researcher

must select both “the case” to be studied and further, some sort of sampling within the case, due to time- and resource limitations (Merriam, 1998).

Some sampling was done in this case study. The study is limited to the Moscow and the St. Petersburg markets, due to time and financial reasons making it impossible to investigate the other regions in Russia where Electrolux has operations. In addition, the two regions investigated are the most important ones for Electrolux in Russia, accounting for approximately 75 per cent of Electrolux’s sales in Russia.

4.5 Scientific evaluation

All research aims towards producing valid and reliable results. However, there are always various sources of uncertainty and error in research. To assess this, any study should be examined, based on questions such as “Were the interviews properly constructed?” and “Do the conclusions of the case study rest upon data?” This makes it possible for the reader to decide whether the study and its results are logical or not (Merriam, 1998). Yin (1994) defines four aspects, which tests the quality of the information: construct validity, internal validity, external validity and reliability. Below, these aspects are explained and discussed with regard to this study.

4.5.1 Validity

Validity concerns the issue of whether the research process is measuring what it intended to measure. Consequently, validity focuses on whether the presented framework is relevant with regard to the description of the reality. While being of a more complicated nature than reliability, validity is divided into three measures (Wiedersheim-Paul & Eriksson, 1994).

4.5.1.1 Construct validity

When conducting the collection of data, there is a risk involved that subjective judgments will be used and that an investigator fails to establish a suitable set of effective measures. To handle this issue of construct validity, a researcher has to cover two steps: 1) select the specific types of

change that are to be studied, and, 2) demonstrate that the selected measures of these changes do indeed reflect the specific types of change, which have been selected. To increase construct validity, the researcher should, if possible, use multiple sources of evidence, establish a chain of evidence, and have the draft case study report reviewed by key informants (Yin, 1994).

In order to ensure construct validity, information has been collected from multiple sources, related to the key issues of the thesis. This made it possible to eliminate subjective definitions and provided a realistic picture of the phenomenon studied.

4.5.1.2 Internal validity

This relates to how well the research findings match reality. Are the researchers measuring what they think they are measuring and does it really capture 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 from the respondent's point of view. To overcome this, the results should be collected from both primary data (e.g. multiple interviews) and secondary data (e.g. literature) in order for the work to attain internal validity (Merriam, 1998).

The information collected in this study from interviews correlates with the parts of the theory, which have been investigated. The data has been collected both from employees of Electrolux and from its distributors, in order to get different perspectives on the research problem. The different parts of the theories used, have all been tried in earlier research, assuring that their basic principles are relevant. Concerning the cultural aspect, facts about the Russian culture and the Russian way of doing business have been derived from secondary data and from primary data, collected during the field trip to Moscow and St. Petersburg.

4.5.1.3 External validity

This concerns to what extent the findings from the research are applicable to other situations, beyond the specific case study. A prerequisite for this is that the work has a high internal validity otherwise there is no point in generalising the findings. If external validity is obtained the result of the research can be transferred and applied to other studies within the area (Merriam, 1998).

The findings in this thesis can be applied to other Western MNCs establishing operations in Russia. The different theories used gave a clear picture of the key issues and how to handle these when building sustainable business relations in Russia. However, the fact that this report only looked at one case may limit the transferability of the conclusions, to the situation faced by other enterprises active in Russia.

4.5.2 Reliability

If a later investigator can replicate the study arriving at the same results as in the original research, then the reliability objective is met. Will the same results, using the same data collection method, be arrived at if another researcher repeats it? This may be a particularly hard question in the context of qualitative studies, which depend on interpretations made by the specific researcher. It is therefore suggested that the dependability and consistency of the research should be considered. This means that the results derived from the data collected should make sense to outsiders, rather than lead to exactly the same result as accounted for in a specific study (Merriam, 1998).

The use of multiple sources of data has increased the reliability in this study. During the interviews, notes were taken and also, tape-recorded, to ensure that no important facts were lost. By using semi-structured interviews, it was possible to clarify uncertainties, as the interviews were undertaken. Many of the questions were put to several respondents, assuring that all perspectives were taken into consideration. The secondary

data used in this thesis has been double-checked, to ensure that it is correct. Market specific information about the Russian consumer durable appliance market is hard to obtain, which is why this information has been used with caution. Material collected from the Internet has been checked with respondents of Electrolux, to confirm its reliability. The Russian market is under constant change, which may alter some of the findings but the general conclusions about how to build sustainable relationships should not change.

4.6 Sources of error

There are many types of errors, which can occur when conducting a case study. Going from the research problem to the result requires passing through a number of steps. The research problem together with the chosen case study decides how rich and relevant information a study can provide for. The other steps in the study, choice of research strategy and method, data collection and review, analysis and interpretation, then decide the actual level of information that is reached, that is, how well the potential of the study is safeguarded. (Lekvall & Wahlbin, 1993).

Having the *wrong purpose* is one type of error that can occur. The purpose of the study can be incomplete or unclear leading to the study not answering the right questions. The results simply lack relevance for the conclusions. It is hard to discover these types of mistakes before the study is completed. The cause is usually an incorrect analysis of the problem. This study has been continuously examined in an iterative way to ensure that it was going in the right direction. By following the pre-set theory, the problem has been analysed as correctly as possible to avoid these mistakes.

Wrong direction and content is another possible type of error. Inappropriate delimitations or having the wrong direction by collecting data that are irrelevant for the given purpose may cause results not to cover the information that the researcher is looking for. From the theoretical models, a clear picture of what data should be collected to reach the desired result

was given. The results of this study therefore have a solid base, formulated within the empirical study.

Inference errors can occur in all types of studies but are mostly found in survey studies. In case studies, this error can arise when the results are generalized outside the phenomenon studied. The problem is to draw conclusions from what is actually studied in relation to the reality that the researcher is interested in. Any survey studies were not conducted for this thesis. Concerning the generalization, other Western MNC's establishing in Russia can relate to the findings of this study.

Measurement errors may take place when the applied measurement procedure does not give the correct value of what is actually measured. Three types of measurement errors can be detected.

- *Respondent errors* occur when the respondent cannot or is not willing to give the right information.

- *Instrumental errors* can occur if the interview questions are inappropriately formulated.

- *Interview effects*, due to the behavior, or the way questions are asked by the interviewer. This can happen if the interviewer asks leading questions or in other ways interferes in the interview. Language can also cause problems, especially when people from different cultures meet.

Possible problems with phone interviews are the time factor, which may lead to the interviewee being put under pressure and interpreting the questions in his own way. The physical distance can also be a problem due to the lack of eye contact and body language between the respondent and the interviewer, which may lead to misunderstandings and misinterpretations.

The interviews conducted in this study were in English, which is a foreign language both to the respondents and the authors. Two interviews were

conducted with an interpreter, which further complicated matters and gave rise to possible sources of errors. There is a possibility that some valuable information was lost due to translator bias. Having a representative from Electrolux present during the interviews may also have affected the atmosphere. The answers obtained from the distributors were, however, very open and they did not hesitate to bring up problems concerning their relationship with Electrolux. The phone interview with Ilpo Helander, stationed in Helsinki, was carefully prepared. A draft of the questions was sent to him before the interview in order to avoid any misunderstandings concerning the questions posed in the telephone interview.

In order to avoid errors in the interpretation of the interviews, notes were taken during the interviews, as well as, their being tape-recorded. By asking many of the respondents the same question, it was ensured that the answers gave a correct picture of the reality.

Review and interpretation errors are faults occurring when the collected data is reviewed so that the wrong conclusions are drawn. Transferring data from questionnaires to functional data, lacking an ability to read the analysis result or a misuse of applying collected data to the theoretical tools can cause these types of errors.

The secondary sources, which are used in the study, may include errors, which are unknown to the researcher, since he has not undertaken the research himself. Special awareness should be applied when Internet sources are used since anyone is allowed to publish information on the Internet.

Checking the data with employees at Electrolux in order to get a fair picture of the market and Electrolux's relationships has solved any potential problem related to Internet sources. All secondary data has been used with caution but errors unknown may have been overlooked in some cases. The analysis has been as open and objective as possible. Of course,

as always the background and personalities of the authors may have intervened with the results since it is hard to avoid subjectivity in any research.

5. Empirical Analysis of Formal and Informal Institutions in Russia

In order to make an assessment of how to build sustainable relationship in Russia, an understanding of relevant formal and informal institutions – defined as rule systems governing the behaviour of individuals and organisations - prevailing in the country, is necessary (see figure 2.1). However, this thesis does not aim to explain all institutions since several of these do not have such a large impact on the build-up process of business relationships and the sustainability of the relationships. Those institutions, which are studied here, are those, which have a great influence on the process of building business relationships, and here institutions are both of a formal and informal nature. These are analysed according to the so-called four stages of institutional analysis (see figure 2.2).

5.1 Formal institutions

The starting point for the empirical analysis is the *Networks Institutions Model* (Jansson, 1999). Those formal institutions, which mainly influence Electrolux's relationships on the Russian market, are the legal system, the financial system, and the product/service market.

5.1.1 Legal system

The legal system in Russia is in a state of flux. There is no fully-fledged legal framework for doing business and relevant laws do not embrace all business spheres. In the spheres where they do exist, the laws are often far from being perfect. The lack of adequate legal institutional rules hampers and complicates potential business operations. The way laws are formulated is often vague and contradictory, and regulations and provisions, which spell out rules for doing business, are constantly changing. The deeply rooted tradition of vague formulations is well reflected in the Russian proverb, "One law can work in many ways". Westerners tend to underestimate the inability of Russians to think along legal lines, the extent to which Russians mistrust laws and rules, and the Russian reliance on personal relationships. In Russia, hardly any business

can be developed and undertaken effectively without personal ties, which always are considered to be of much more vital importance than written rules. (Tourevski & Morgan, 1993).

Some critics claim that the major shortcoming of the Russian legal system is the existing discrepancy between laws, which are being adopted and laws, which have existed before. The new legislation's shortcomings stem from a lack of preceding cases, as well as the lack of resources to enforce rulings. The expression "the law is like a telegraph pole – you cannot jump over it but it is easy to go around it" illustrates perfectly the prevailing situation. Explanations for these discrepancies are related to Russian lawmaking, not to international legislation, as well as to the instability of instituted laws. The lack of a fully implemented and effective legal institutional rule system is particularly evident in regard to a property-rights based legal framework. (Peng & Heath, 1996).

However, although a generally accepted legal framework for international business and property is missing, the legislative system has improved over time and is not always as bad as its reputation would tell. For Western enterprises there is need for careful considerations and consulting of juridical expertise, also taking into account that the availability of information about the current legislative situation is limited. (Russian Country Commercial Guide, 1998).

5.1.1.1 Contracts

While Westerners prefer to base their business relationships on legally enforceable contracts, many Russians still doubt the value of this. As said, most Russian business dealings are based on strong personal relationships, with the contract considered more or less a matter of a formality (Russian Country Commercial Guide, 1998). In the case when a contract is violated, the legal system, in its present state, does not offer any major opportunity to enforce what is stated in the contract. A contract is viewed as a written statement where the parties involved state their oral promises. Contractual

agreement should not be rushed into since these presuppose that a sound and trustworthy personal relationship has been established. Personal relationships based on trust, thus often substitute for, or at least complement, the legal system, leading to the importance of having good personal relationships in Russia. Good customer relationships might stimulate more efforts being made than are required according to a contract and, at the same time, personal relationships are flexible and durable, which is not the case for contracts.

5.1.2 Financial system

The Russian transition towards a market economy has been slow and plagued by uncertainty. There was a sharp increase in demand in the beginning of the 1990s, especially for Western products, but this has now declined. The August 1998 financial crisis had a devastating effect on the purchasing power of Russian consumers, especially for the Russian middle class, which comprised the most likely source for a vigorous growth in demand for Western products. (Afonina, 1999).

The financial situation has not only affected end-consumers but also all actors undertaking business operations on the Russian market. Russian investors have not been able to give credits to enterprises, which have led to bankruptcy, especially among many domestic businesses. In addition, Russian banks have no reputation of providing financing to domestic enterprises. Doing business with Western enterprises has therefore become an important option, in order for Russian enterprises to be able to finance their operations. Western enterprises active in the market have thus been forced to finance both their own operations and, to some extent, those of their partners, sometimes entailing too large credit risks. Moreover, many Western enterprises also hesitate to invest in Russia.

However, it is a common view among actors operating in Russia that the market has great potential, if the financial situation improves. Many

Western enterprises therefore continue or start operations, in order to have a base from which they can expand, as the situation improves.

5.2 Informal Institutions

The informal institution, which will be the focal point in this section, is business mores in Russia. Informal institutions – or rule systems for enterprise and individual behaviour - are the most central ones when building relationships in Russia. They are concerned with business relationships, as depicted in spoken and unspoken rules, and have a central impact on the behaviour of the actors involved in business relationships in the country.

5.2.1 Business mores

Business mores throughout the Russian business environment are not always compatible with those in Western countries. In many instances, the unethical standards of the communist era have spilled over into unethical behaviour in specific business areas and in some cases, the relevant problems here have grown in importance over time. In addition, business information systems, including the absence of a regular and timely supply of reliable financial, legal and commercial information, are underdeveloped. Often relevant information is mainly obtained through personal contacts and not via official sources. The possibility of obtaining information through “unofficial” channels therefore plays a decisive role in undertaking successful business operations in Russia. (Russian Country Commercial Guide, 1998).

However, the situation has become more Westernised lately. Newly started private enterprises, companies with a foreign board of directors, or enterprises run by young entrepreneurs are relatively familiar with the Western way of doing business and acts more in a way similar to that of Western enterprises (Lahtinen, 1999). While the business-structure is still underdeveloped compared to Western standards, professional business-behaviour is increasing as local actors gain experience concerning rules and

the philosophy of a market-economy. Representatives of Russian enterprises are also travelling more in Europe and in USA, learning from successful enterprises in the West. These Russians tend to embrace the new Western way of doing business and often copy what they see, and bring it back to Russia.

Russian people are usually well educated, have good theoretical skills and are relatively knowledgeable in English. In addition, decision-making is slowly being decentralised in many enterprises, providing for people today to work more independently and hence being more positive towards individual initiatives. This growing level of readiness to take initiative is reflected in an increasing number of young, energetic and active entrepreneurs, who have come forward in the wake of the transition towards a market economy. These young businessmen have grown up in a more liberal society, compared with older generations of Russian businessmen. They are not so embedded in the old thinking of collectivism, they are more inclined towards earning money and try to act with more long-term perspectives. They can easier relate to market thinking and they are actively searching to expand their business network and to build something of which they can be proud. All these aspects demonstrate a change, which has positively influenced Russian business mores and this tendency will hopefully continue in years to come.

5.2.1.1 Corruption

Although the situation is improving in Russian business life, there are still some problems. Corruption in commercial transactions has become a major issue in the last several years and it has been growing, both in number of instances and in the size of related bribes involved. President Yeltsin and his government acknowledge that corruption is a major problem and have demanded that the Duma speed up the adoption of related required legislation. (Russian Country Commercial Guide, 1998). The communism era system of networks of corrupt officials has transferred with ease into the new market economy system, providing foundations for organised

crime, including the thriving Mafia. In general, although the principles and goals of market reforms continue to be widely shared among Russians, the implementation process of reforms often bears the hallmark of specific interest groups and also, attempts by government officials to extract maximum rents from their positions. (Raiser, 1997).

Since most officials often are underpaid, bribery has become a big problem in Russia. The poorly paid officials abuse their power positions and view bribes as an opportunity to supplement their small incomes. Russia has laws and regulations against bribery and other forms of corruption, but penalties are often insufficient, to act as restraints for such behaviour. (Elder, 1999).

5.2.1.2 Alcohol

The extensive use of alcohol in the building phase of a relationship in Russia is often mentioned in articles in the West. However, the vodka-culture is less important and common nowadays, especially in the major urban areas, where professionalism is growing in importance. However, this is not to say that it does not exist. It is still a part of the Russian culture and social patterns, and many Russians still consider vodka as a natural part of social activities, similar to the French and Italians' attitude towards wine. (Elder, 1999).

5.3 Conclusions from chapter five

Today, Western MNCs operating in Russia face a complicated situation in many ways. The legal system works unsatisfactorily concerning business-related issues which increase the degree of uncertainty for enterprises undertaking business activities in the country. Moreover, the legal system is characterised by changing and contradictory rules that further confuse matters for actors involved in business dealings. Hence, contracts are not as valid in Russia and business consequently relies on personal relationships, based on trust and respect. The financial system is in addition not supportive for enterprises operating on the Russian market.

Furthermore, relevant and truthful business information is hard to come by, leading to the importance of having personal relationships. Corruption is a problem in many areas but measures are taken by the Duma to decrease it. However, professionalism in business, as known in the West, is increasing and young entrepreneurs are currently making their way in the Russian business life.

6. Empirical Analysis of the Russian Culture

Culture is an important factor when establishing and maintaining a business relationship since country culture impacts all business behaviour. A country culture is ingrained into people, over generations and to understand the culture and how it might influence and direct the behaviour of Russians in different situations is therefore crucial. This is of decisive importance when building sustainable business relationships.

The Russian country culture will be examined below based on aspects highlighted in the theories of Hofstede and particularly Trompenaars. The reason for focusing mainly on Trompenaars theory is that it is more encompassing than Hofstede's. It considers more cultural dimensions, depicting how different cultures could be understood and differentiated from each other. In addition, Hofstede's dimensions are in many respects included in Trompenaars theory, sometimes directly, sometimes relating to several specific cultural dimensions, noted by Trompenaars. He has also included Russia in his research, something that Hofstede has not done.

At the same time, Trompenaars has used Hofstede's theory as a base for his research and he also expanded the theory, into seven dimensions of which five particularly focus on the interaction between human beings. This suits the research problem in this thesis well, and thus, it will better fit into the theoretical framework as previously presented.

The statements ending each cultural dimension are taken from respondents during interviews conducted in Russia.

“Cultural issues are very important parts of everything – business culture as well as individual behaviour”

6.1 Universalism versus Particularism

In the West, people are expected to employ the same set of ethical standards regardless of situation. In contrast, in Slavic cultures including

Russia, two sets of values have been developed – one for impersonal or official relationships, and one for personal relationships. This is very much so in Russian business life where, as mentioned above, the whole business mentality of Russians put an overriding priority on personal relationships. (Puffer, 1994). Russians would not commit or like to initiate any long-term business operations, without a genuine feeling of trust for their partner. Building such truthful personal relationships is time consuming and many face-to-face meetings including dinners, gifts, taking a sauna together, playing pool etc., are a necessity to succeed in this respect (Kvint, 1993).

As in any interpersonal interaction, integrity and honesty are crucial for developing a lasting and rewarding relationship with Russian business colleagues. Moreover, in Russia, it is not until a friendly relationship has been established, that one can be sure of a start to building trust. This is decisive for establishing co-operation and reliability from the Russian counterpart, as a base for long-term business undertakings. Many Western business people also clearly declare that Russian business partners often turn from distrustful to trustful relations in the context of the development of personal relationships. (Nilsson & Tengblad, 1997).

Developing mutual trust and respect with Russians presents special challenges in the light of some Russian practices, which violate Western ethical standards. It is not until the personal relation has been well established, influenced by trust and commitment, that the business partners can start to make transactions and have confidence that his business partner will honour mutual agreements. The business activities are more connected to the person, than to the enterprise in which the person works. Business is conducted with Mr. Human Being and not with Company Ltd.

In short, while there may be dishonesty in business dealings, there is always honesty in friendship. Thus, in Russia, while it would not necessarily be considered unethical to deceive someone in a business transaction, it would be considered unethical to deceive a friend or a trusted

colleague. Thus, to repeat, it is therefore central to make a genuine and serious effort to forge a strong personal relationship with Russian colleagues, rather than maintaining an arms-length, formal business relationship as is prevalent in the West. Such an approach focusing on strengthening personal ties is more likely to stimulate ethical behaviour, loyalty, and trust of the type that Russians show their friends, family members and close colleagues. This is articulated in the expression “Do it because of friendship, not because of duty”. (Puffer, 1994).

To maintain a close relation is very difficult or even impossible without frequent personal contacts. Russians tend to prefer direct interaction face-to-face to indirect communication, such as telephone-conversations or mail-exchanges. Once the personal relationship is set, favours are exchanged regularly and the doing of a good deed is expected to be repaid in the future (Richmond, 1995).

The discussion above clearly shows that Russia has a particularistic culture, where relationships are considered more important than formal rules. This conclusion is supported by Trompenaars research, which shows that, in Russia, friendship has a central position while rules are considered to be of secondary importance.

The particularistic nature of the Russian culture has its historic roots. Unofficial contacts and informal transactions of favours and commodities have been a fundamental part of Russian society historically and are still present in today's economy. This structure of informal links among people in the Russian society is clearly related to *blat*, which is Russian for “connections”. It originates from a socialistic society characterised by shortages and it ruled practically all parts of life during the communist era. *Blat* was an instrument to deal with lack of resources, which then characterised everyday life. If someone, for example, had a *blat* relation with a butcher, the butcher would provide that specific person with a piece

of sirloin at the back door while giving everyone else products of low quality. (Kvint, 1993).

Enterprises in Russia today rely on a network of contacts in order to minimise uncertainties stemming from a changing environment and an unstable political structure. These are the same type of network contacts, which were extensively used to co-ordinate economic activities in the communist era. Special persons called *Tolkachs* were sort of expeditors, whose primary job was to establish long-term personal relationships with other organisations. This network structure while originating from the communist era prior to 1991 has been especially important during the transition period, because it has offered consistency in a time of immense volatility. In addition, such personal networks work as a substitute for, or at least, a complement to the present insufficient legal framework. (Peng & Heath, 1996).

The study in this thesis also supports the conclusion that Russia belongs to a particularistic culture. The greater part of our respondents mentioned personal relationships and personal trust as the main feature of business in Russia.

“Personal relationships are damn important in Russia”

“Individuals are the key word in Russia. Facts are not as important as building individual relationships based on individual trust. One mistake with key-accounts will severely harm the trust and retaining the confidence in business is more difficult than in the West”

“There is a common idea in the West that all Russians are Mafiosos. Illegal behaviour is part of society, it's like Italy. Official and unofficial business exists, which are both important parts of normal life, it is nothing strange”

“Russians feel that when you take a sauna together, then there is nothing to hide behind - no shirt, no tie, no suit etc. It is first then that you can really start to build a personal relationship that will lead to long-term business. Relationships are far more important than written contracts”

6.2 Individualism versus Collectivism

Russian society has for a long time been dominated by a centralised collectivistic philosophy that permeated all ranges of life. The economic system that used to exist was the planned economy system with five-year plans that stated what should be produced, what amount that should be produced, where it should be produced, who should produce it and in what time. The state planned everything and the people’s only task was to fulfil the plan without the need to take any initiatives. In the countryside, the State introduced collective farms (“kolkhozy”) and all private sector activities as well as, private property in trade, services and industry, were more or less eliminated in this system (Hertz, 1997).

Hence, the Russian people have lived with a socialist doctrine that, for over 70 years, emphasised the fundamental concept of sharing according to individual needs based on centralised state distribution of resources. Also in communal living, particularly related to farming conditions of the traditional Russian society, the well being of the collective was highly valued, and individuals who showed signs of trying to make themselves better off than the group were viewed with suspicion and contempt. Consequently, individualistic traits such as achievement striving, ambition, and initiative were considered to be socially undesirable and destructive for the group harmony. The norm was to blend into the group and avoid challenging the standard way of doing things. People who strived to be better off than others were seen as taking away the rightful share of others. (Holt, Ralston & Terpstra, 1994).

The idea of *egalitarianism* was prevalent and the elimination of inequities, and the equal distribution of benefits among individuals was the ultimate

goal. Egalitarianism stems from the Russian culture of *mir*, which symbolised village democracy in old Russia. Equality among inhabitants of the country was the primary aim and this was considered much more vital than personal independence. Thus, feelings of contempt were directed towards those who tried to take advantage at someone else's expense or, who tried to lift their financial standard above that of others (Richmond, 1995).

The Communist Party took care of all decisions for the people. Thus, the Russian people have not had the freedom of individual endeavour, nor the responsibility related to independent decision-making. At the same time, in the past Soviet State, a psychology of self worth was suppressed in favour of a commitment to the collective welfare of the state. (Holt, Ralston & Terpstra, 1994).

The difference between Russia and other collective societies (for example Japan), is that Russians were forced to share specific beliefs. By now however, although the history of Russia is highly influenced by collectivism, current Russian culture is increasingly focusing on individualistic traits. The role of the state in the economy is now decreasing rapidly and the society has ceased to control and support its citizens. With the downfall of communism, there has been a sharp rise in individualism.

All these changes means that Russia is in the midst of a transition, from collectivism towards individualism, although the legacy of egalitarianism might dampen sharp changes here. Nevertheless, by now, increasingly, persons have to start thinking in individualistic terms. The only thing to rely on is the person's own ability and his closest family. (Nilsson & Tengblad, 1997).

Trompenaar's study shows that Russia scores high on aspects relating to individualism. His research demonstrates that Russians are more centred

towards individualistic values although in some cases, they prefer collectivistic solutions (Trompenaars, 1996).

An example demonstrating that collectivistic features/solutions still exist are the decision-making processes that are used in many organisations. Almost every business decision is made at the top-level of the enterprise. Nearly all negotiations and decision processes are conducted between the top managers of the enterprise, and very few important business decisions are delegated downwards in the organisation. Representatives of an enterprise or an organisation often have no power at negotiations for example to change a position that has been previously approved by their superiors. Even if they are small changes, all kinds of bureaucratic provisions have to be taken, and permission for making the changes have to be given, by the top boss. (Elenkov, 1998). However, the interviews conducted in this thesis reveal that there are signs of a more decentralised management style in the Russian business society.

“The system in the country has changed. People are more inclined to act individualistically, since there is money to earn for those who seize the opportunity of the transition to a market economy”

“Professionalism is growing all the time leading to better decision-makers. Better decision-makers lead to a decentralised society. This is something that has changed a lot from earlier times”

“Russians are very individualistic in their thinking”

6.3 Neutral versus Affective

Russia clearly represents an affective culture. To show emotions openly is an accepted phenomenon in Russia and there exists a wish for business relationships to have an emotional charge (Holden et al., 1998). Russians often use the whole range of their voice and have great tolerance for human feelings, such as shouting and gesturing. Indeed, showing strong emotions can often help the case since it displays that you are a human being and not

a “corpse”. Moreover, their temperaments are frequently both morbid and fanatical and emotions expressed are spontaneous and strong (Poe, 1993). Russians also have a well-renowned reputation for extremes - an all or nothing mentality is often present.

Argumentation is sometimes based more on emotional grounds than on logical reasoning. However, this is a Western viewpoint and what seems illogical for a Westerner might seem logical for an Easterner and vice versa. This could also be a matter of personal background and education. In comparison with Westerners, Russians are seen as being more emotional, expressive, creative, lively and more outgoing and all this might occur as a sign of a less logical type of behaviour to a Westerner. (Fässberg & Johansson, 1998).

Russians respect a person for speaking his mind, and expect everyone to do so. Different opinions are expressed loudly and human interactions often become emotional. Russians do not encourage conflict, but are quite inclined towards direct confrontations. They react and respond at an early stage, if something is considered to be wrong. (Nilsson & Tengblad, 1997). A paradox of Russian behaviour in negotiations is that, while they purposely might conceal facts and information, they do not hide their emotions. (Tourevski & Morgan, 1993).

“Russians are very emotional and the Russian culture is based on two emotions. It is either deep love or deep hate and these emotions characterise typical Russian behaviour. Decisions are not always based on rational thinking and this emotionality plays an important role in business life”

“There are a lot of body language and gestures characterising Russians and emotions are very much connected with members of this culture”

“Russians are emotional and this is shown in every-day life”

6.4 Specific versus Diffuse

Russia is a diffuse culture where rank, status, titles and positions are considered important. These should be respected at all times and the individual is estimated accordingly. High positions and titles work as “keys” and may be an important help in establishing contacts with responsible people within Russian enterprises (Nilsson & Tengblad, 1997). It is further important when people meet with each other, in business or in every-day life, to sort out what level in society and/or level in an organisation the counterpart has, in order to know how they should relate towards each other. In Russia, it is important that people on the same level of status meet in business dealings, otherwise the higher-ranked party would be offended by the lack of respect shown from the opposite organisation. (Tourevski & Morgan, 1993).

Status follows the carrier, regardless of the situation/context, and people’s positions and place in society are crucial. A manager is always a manager and is treated accordingly regardless of situation. “If I am a boss, you are stupid, if you are a boss, I am stupid”, was a saying in the former Soviet Union illustrating this. In a Russian business meeting, there is no doubt who is the boss. The boss does the talking and his subordinates listen. Never cut him off and never make him lose face in front of his subordinates, even if you do not agree with him. The boss is considered to know best due to his position and therefore, there is no need to get into confrontations. (Tourevski & Morgan, 1993).

That status counts in Russia is illustrated by the following story. A Western reporter asked President Yeltsin shortly after he was inaugurated as President, following Mr. Gorbachev, if he felt any resentment toward President George Bush for having refused to meet with him some months before, during Mr. Yeltsin’s first trip to the United States. “No”, replied Mr. Yeltsin bluntly, “President Bush treated me in accordance with my status at the time”. As a lifelong Communist “apparatchik”, Mr. Yeltsin

had long ago learned to accept both the privileges and the limitations of bureaucratic status. (Tourevski & Morgan, 1993).

Even after the break up of the Soviet Union, power and decision-making are still relatively centralized and hierarchical in Russia. Superiors generally make decisions and the country scores high in power distance. (Elenkov, 1998). However, decentralisation and modern management appear to have become more common, replacing the centralized system propagated by czarism and communist Russia alike. (Kuoppala, 1999).

This study confirms the importance of status. Business-meetings have to be conducted between representatives on the same level in opposite companies. Sales-representatives meet shop-people and brand-managers meet general directors. If an enterprise wants to start doing business with a Russian counterpart, it must send representatives from the top management. The Russians are sensitive to hierarchy and only want to deal with decision-makers. Business-discussions often start slowly where the conversation barely touches upon business. The dialogue is of a general character and talk about sport, weather and family are popular topics. Representatives “circle around” each other, trying to create a deeper understanding of each other. They come down to the specifics of business only later on when relationships of a more personal nature have been introduced.

“We meet our business partners almost everyday at different levels. It is important to meet the corresponding person in the other organisation”

“In the beginning of a relationship, business issues are just touched upon. As the relationship develops, business issues are more frequently discussed”

6.5 Achievement versus Ascription

In Russia, self-accomplishment has been closely associated with achieving objectives of social collectivism. As referred to, in the traditional Russian society, individuals who showed signs of making themselves better than the group were viewed with suspicion and contempt. As a result, individualistic traits were considered to be socially undesirable and destructive for group harmony. Today, individual success still arouses feelings of envy in many people who hold the deep-seated belief that the wealth and achievements of others are gained at the expense of those who have less. As a result, many Russians feel resentment rather than admiration for people who earn more, even if the material success is obtained through hard work and legitimate means. Negative attitudes toward individual initiative are deeply ingrained in the Russian mentality and many Russians who want to realise their ambitions feel pressure from two sources – public scorn and their own guilt from violating the values they were raised with. (Elenkov, 1998).

Seniority systems existed and are still present in many Russian enterprises and rewards are in general not tied to accomplishment. However, signs of a reversed seniority system have recently occurred, displayed by managers being chosen by the criteria of not being influenced by the old Communist system. Performance is a consideration for promotion only in the sense of whether individuals attained predetermined general efficiency ratings. Competence is often associated with accumulation of formal credentials and in terms of behaviour, compliance with that which is prescribed by formal authority. The assessment of an individual will not just be based on his position, but also on his age, experience and knowledge. (Holden et al, 1998).

It is not unusual for Western companies to loose a business deal due to the lack of knowledge concerning how Russians accord status to age and gender. Russian business partners show more respect for age and experience than most Westerners do. (Tourevski & Morgan, 1993). In spite

of this, Russians are now showing tendencies towards appraising achievements above age and experience. The attitudes towards entrepreneurs are beginning to loosen and performance is valued higher in newly privatised enterprises. A person's knowledge and the ability to transform it into action are regarded as good personal characteristics and now receives more respect than in the past.

“It was hard for me to get respect at the beginning of some business relationships. This was due to my poor experience, my relatively young age and because of my gender. It is different to be a woman in business-life. However, this could sometimes work as an advantage”

6.6 Attitudes to time

One of the most important lessons that Western enterprises have learned in Russia is that without enormous patience and without the willingness of the representative to spend a lot of time there, undertaking business is very difficult. Russians do not like to be rushed and patience is a Russian virtue, born out of necessity. This is largely due to the fact that Russians have a different perception about time. The Russian culture represents a synchronic time perspective (see section 2.5). Time is not considered to be a scarce resource (time is *not* money) and is not as appreciated and important as in the West. (Tourevski & Morgan, 1993). The time for decision-making is thus generally longer than in Western countries. However, it often depends on with whom meetings are conducted. If the meeting is at the right level (top-level), decisions can be made quickly (Kvint, 1993).

A significant characteristic of the Russian businessman has been his short-term thinking. Making money fast has been considered central and gains have seldom been re-invested in business (the money is often taken out of Russia, to ensure that it does not depreciate). On the other hand, Russian businessmen puts a lot of effort into establishing long-term relations characterised by mutual trust and confidence. In this way, they have a long-

term thinking. This contradiction can lead one to conclude that Russians are both short-termed and long-termed oriented in their thinking, where the former is probably a dominant feature. (Tourevski and Morgan, 1993).

In Trompenaars' study it is claimed that Russians are more focused on the future than the present and the past. "*There is no connection between the past, the present or the future, though the future is much more important than the present and more important than the past*" (Trompenaars, 1996, p. 113). The past, present and the future are not seen as interrelating with each other. (Cottle through Trompenaars, 1996).

The empirical findings of this thesis do not support Trompenaars' conclusion of Russia representing a future-oriented culture, where talk about upcoming events would occur repeatedly. This study indicates that Russians are mostly focused on past and present events. The centre of attention seems to be on today - people are more focused on the daily episodes of life. The future is seen as something diffuse where all kinds of changes can occur, which directs all concentration to the current situation and influences accordingly, activities of individuals and organisations. The focus is on coping with the current situation. In business it is the present relationships that are of interest. At the same time, the past is also regarded with respect and Russian managers systematically place high value on traditions and habits, reflecting high respect for established social norms (Elenkov, 1998). Russians also have a good knowledge about the history of their country and this is often viewed with pride.

"The focus of the work is on the every-day business and you have to gather the troops in the morning to win the war"

"It is impossible to see in to the future, many changes may occur, which leads the focus on today"

6.7 Attitudes to environment

Russians value stability, security, social order, and predictability. A brutal history, a harsh climate and a dubious outlook on life are some factors that have caused this viewpoint. Changes are feared, while tried and tested situations are preferred over new and unknown conditions. (Halldén, Olsson & Stenholm, 1999). Numerous observers have noted that Russians are very concerned with the threat of uncertainty and they have a need to control the situation. Enterprises seek to create security and avoid risks and high priority is placed on protecting past results, rather than on taking risks related to an uncertain future. The future is seen as something to be feared, leading to a wish to control related circumstances. (Holt, Ralston, Terpstra, 1994).

Moreover, the Russians are said to be more cynical, seeing life as gloomy and hopeless and out of their control. They have learned to live with misfortunes and have a tendency to expect things to go badly. Encountering problems does not automatically motivate activity to overcome these, but a tendency to put up with these. Tolerantly waiting for something bad that is going to happen is common. (Tourevski & Morgan, 1993).

In the Soviet-era, power was said to be the tool for controlling the environment. The existence of something beyond control or under partial control was, in itself, an insult to power. For example, the continuous reorganization of the agricultural sector was based on a steadfast faith that power was able to directly influence the objective processes of interactions between humans and nature. The existing belief was that there is nothing that occurs by itself, without the intervention of power and in the context of an all-encompassing system of control.

The conclusion drawn is that Russia belongs to an inner-directed culture where the predominant feature is the discomfort when something seems to be out of control or is unpredictable. There is a widespread notion that

control is a good thing and that control is a means to cope with the dynamic environment now characterising Russia.

“Russians need more than clear job-descriptions to know what their responsibilities are. This is due to a fear of making mistakes”

“Russians are used to changes occurring almost every-day. However, they are also afraid of everything. For them, everything should be crystal clear”

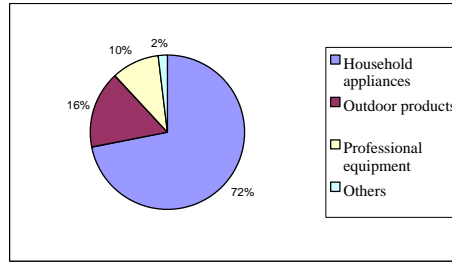
6.8 Significant characteristics of the Russian culture

The most evident characteristic of the Russian culture is the focus on relationships, labelled particularism by Trompenaars. The whole society is based on personal relationships and that is mirrored in the business sphere as well. The centre of attention is on the current situation and Russians are mostly present-oriented. Moreover, the culture is of the affective kind and Russians value stability and security over dynamic changes in the environment. The most visible changes in the Russian culture are the steps towards individualism and the indications of more positive attitudes towards achievement. The eagerness to make money in the developing market economy is increasing, due to individuals having to take care of themselves and not depend on an overall formal authority. Moreover, although individualistic traits such as achievement striving, initiative and ambition have been repressed in the past, signs of change are now occurring throughout the Russian society. Evidence of this are the young, active and energetic entrepreneurs that are making their way into business life with professional attitudes and the drive to get things done. In these days, admiration for achievement oriented people, with the ability to make things happen, is increasing in the whole society, compared to the past. All these events are beneficial for Western MNCs, since the Russian culture is becoming more westernised, leading to a familiar business climate.

7. The Electrolux Group

Electrolux is one of the world's leading consumer durable appliance manufacturers. Its products are found in over 100 countries around the world. The total turnover was 115 billion SEK (14 billion USD) in 1998, derived from three major business areas:

Figure 7.1 Electrolux's business areas, 1998



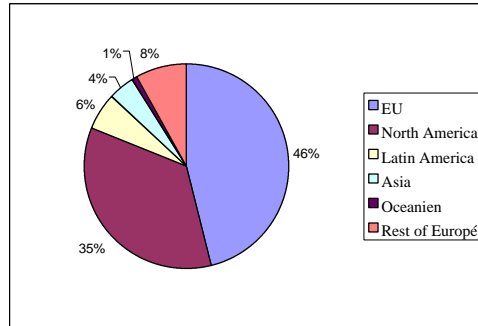
Source: Electrolux Annual Report, 1998.

- Household appliances, include the brands Electrolux, Zanussi, AEG, Frigidaire and Elektro-Helios. This business area includes consumer durable appliances (white goods), which is the dominant product group of Electrolux. White goods include “cold” products; freezers and refrigerators; “wet” products; washing machines and dishwashers and finally “hot” products; ovens and microwave ovens. In addition, products such as vacuum cleaners, and absorption refrigerators for hotels and caravans are a part of this group.
- Professional appliances, which include the brands Electrolux-Wascator, Wacomat, Zanussi, Kelvinator etc. This area contains kitchen appliances for restaurants and institutions. It also includes food- and drink-vending machines and washing equipment for laundrettes. Other product lines are refrigerators and freezers for stores.

- Outdoor products, include the brands Husquarna and Jonsered. This area contains gardening tools (lawn mowers), chain saws and other tools for forestry.

In terms of geographic sales, the EU and the North American markets are the dominant ones. Russia, which falls under the category “Rest of Europe” has been one of Electrolux’s most profitable markets over the last couple of years and is expected to grow in the future. (Lahtinen, 1999).

Figure 7.2 Electrolux’s turnover/geographic area, 1998



Source: Electrolux Annual Report, 1998.

7.1 Electrolux in Russia

Electrolux started its operations in Russia in the 1970's when Electrolux was represented through a Swedish trading house that distributed all sorts of products to Russia. During the Soviet-era, the distribution of consumer durable appliances within the country was carried out through the Beriovska, a state owned trading house. It was not until 1995 that Electrolux made a real effort to establish its own operations on the Russian market. (Strashnov, 1999).

The Electrolux brands were unknown on the Russian market at this time and operations had to be built up from scratch. The process of building new business relationships with local actors was very time consuming and demanding. Since it was totally unknown to the public and since distributors had no previous experience of dealing with Electrolux, the enterprise had a lot of groundwork to cover. Electrolux's representative had to start out by going through the secretaries of the distributors and through them, progressing to higher levels within the distribution enterprises. This required hundreds of calls, a lot of gifts etc. It also included many hours of presentation of the Electrolux Group and its products. A key purpose here was to get to know those people with whom Electrolux were going to do business. This required that a great deal of time be spent with these persons. Especially, marketing issues had to be discussed at length. This was an area, which had been almost totally neglected during the Soviet-era - it was therefore a very underdeveloped function for many of the distributors. (Strashnov, 1999).

During the period 1995-1998, the Russian market was booming, with sales increasing steadily. In August 1998 however, the Rouble was devalued, leading to imported goods becoming four times more expensive than before the crisis for end-users who got their salaries in Roubles. The total consumer durable appliance market decreased by 50 per cent for imported goods. (Kuoppala, 1999). Electrolux was forced to lower expectations and calculate a sales decrease of 30-40 per cent (Peterssohn, 1998). Today, the market is slowly picking up again but there is no room for extensive future planning since conditions may change overnight. Electrolux does not have any local production but there are plans to start this within the next couple of years assuming that the conditions in the country stabilises. Today Electrolux's products and activities in Russia are co-ordinated from Electrolux's office in Helsinki, Finland.

For the Electrolux group, the Zanussi brand has become much more competitive price-wise and has gained much more brand awareness. The

Electrolux and AEG brands are under heavy pressure to maintain their volumes and profitability since these are the only brands in the market for which prices have not gone down following the crisis. Zanussi represent faster moving goods compared with the Electrolux and AEG brands, which are more niche products.

The Electrolux Moscow office is central for all Electrolux operations throughout Russia. The office is mainly a marketing and sales coordinating department, since Electrolux does not have any production in the country. Currently around 50 people work for Electrolux in Russia with another 10 people stationed in Helsinki. Apart from the Moscow office, Electrolux has an office in St Petersburg, and has sales representatives in Minsk (Belorussia), Yekrinenburg (the Urals), Novosibirsk (in Siberia) and in the south of Russia. Only cities with over one million inhabitants are currently of interest to Electrolux, due to the economic situation, which has led to a low demand elsewhere, particularly in the countryside.

Moscow is Electrolux's main market, currently accounting for 60 per cent of its sales, followed by St. Petersburg with 15 per cent of all sales, while remaining regions contribute the rest (Lahtinen, 1999). Electrolux's sales have been recovering since the crisis in 1998 but have not yet reached their pre-crisis level. The trend is however positive for the moment and in terms of market shares, according to enterprise representatives, Electrolux are gaining on their main competitors.

7.2 Market structure

The consumer durable appliance market on which Electrolux operates has a significant potential to grow over the next decade in terms of numbers of units sold. In the short term, taking Russia's current economic situation into account, the growth is likely to be limited for most consumer durable appliance companies except perhaps for those operating in the low-end of the market. The most competitive low-end brands are Korean and Chinese ones. The Russian consumer durable appliance industry still remains

technologically second-class, in comparison with its Western counterparts. (Afonina, 1999).

Since the end of the Soviet era, there has been a rapid price and product assortment diversification, which has led to increased competition. The number of end-users has also increased, foremost in the largest metropolitan areas. However, the currency devaluation in August 1998 has had a devastating effect on Russia's middle class, which has been the target group for Western appliances. Consequently, the Russian economic performance, which decides the trend in living standards of the Russian middle class, is the single most important factor deciding future market prospects.

The potential demand for consumer durable appliances is large in almost every region, taking into account the narrow range of features and the limited quality of items stemming from the Soviet period. This means that consumers are willing to look for alternative choices while considering the more advanced features of some Western appliances as extravagances. There are also a number of niche markets for more expensive, high-end items, in major industrial cities, such as Moscow and St. Petersburg. Apart from these markets, the cultural preferences, habits and product awareness of the less sophisticated customers make products such as modern coffee makers, blenders and other common Western kitchen appliances less popular in the rest of Russia. The broadest range of potential sales throughout Russia is for refrigerators, washers and dryers. Consumer durable appliances are now considered as being necessity goods. These therefore show a more stable demand in times of economic downturns, than VCRs, CD-players or other goods, often classified as luxuries. The moderately priced common appliances are likely to be the top priority for Russian consumers in the next 5 to 7 years as older Soviet-era appliances are worn out. The increase in demand for Western appliances depends on how the welfare of the Russian middle class increases and therefore there is

currently little room for high-end products. This is a trend that is likely to remain for the foreseeable future. (Afonina, 1999).

There have been several developments on the market following the crisis of August 1998. Perhaps the most important change is that end-customers, and consequently distributors, have started to substitute imported goods for domestic ones because these are cheaper. The end-customer would rather keep his money than spend it on expensive imported consumer durable appliances.

Advertising has become an increasingly important factor where such aspects as in-store promotions, price advertising, and sweepstakes have become a more and more common feature. Quality is another key factor on this market. During the Soviet period the quality of consumer durable appliances was very low, which is why consumers started looking for Western alternatives when these became available. However, the quality aspect has lost some of its significance since price now has become such a dominant factor in buying decisions.

A special feature of the consumer durable appliance market in Moscow are the so-called open markets. At these, products are sold directly out of trucks and from small kiosks, and products can also be ordered here. This is a price driven market where taxes are non-existent - thus decreasing the prices of products. This is a unique event that is becoming more and more popular. The products sold at these markets originate from countries neighbouring Russia, including products from Electrolux's own warehouse in Finland. Since many distributors do not have the financial means to buy a whole truck of Electrolux products, they sell off a part to the open markets. With the financial situation in Russia currently being very strained, the open markets have become of increasing importance. However, once these products are bought, the buyer has no warranties, after-sales agreements or other guarantees. (Kuoppala, 1999).

8. Empirical Analysis of Electrolux’s Network

This section analyses Electrolux’s network in Russia. The empirical findings will be linked to the theoretical framework presented earlier. The choice has been made to have these two parts together since some of the theories used are both descriptive and analytical in their nature, leading to difficulties in separating empirical material from the analysis. The main focus will be directed on the actors in the network, their exchange relationships and the overall atmosphere characterising these relationships.

In order to analyse business relationships, the *Network approach* will be used. This model was originally developed to analyse industrial networks i.e. to focus on the stability and development in this context. In this thesis, the model will be used to explore and evaluate Electrolux’s relationships with its network actors. The focal point in the network theory concerns the network exchange relationships between industrial actors. The production level, involving resources and activities, is of less importance for Electrolux’s organisation in Russia since Electrolux is a marketing and sales organisation there. Electrolux, consequently, has to focus on building up a network of relationships to reach end-customers, given the prevailing circumstances. It is the linkages, which form the basic structure of Electrolux’s network, which will be examined in this chapter.

To be able to go more into depth in the analysis of the network, *the atmosphere* and *interaction process* as defined by the *Interaction approach* (Håkansson, 1982) will be examined. The *environment* aspect of the model is also analysed but not according to the structure of the original model, since these issues are constantly recurring throughout the analysis. Although this method too was developed for industrial markets, it can be used here, focusing on the evaluation of dyadic relationships, for example, the relationship between Electrolux and its distributors.

8.1 Actors

The focal company in this thesis is Electrolux and hence the analysis of the network is made from its perspective. Within the distribution network, there are several actors who affect Electrolux's operations and a presentation of these will be given below. Electrolux's connections with its competitors will also be outlined and analysed.

8.1.1 Distributors

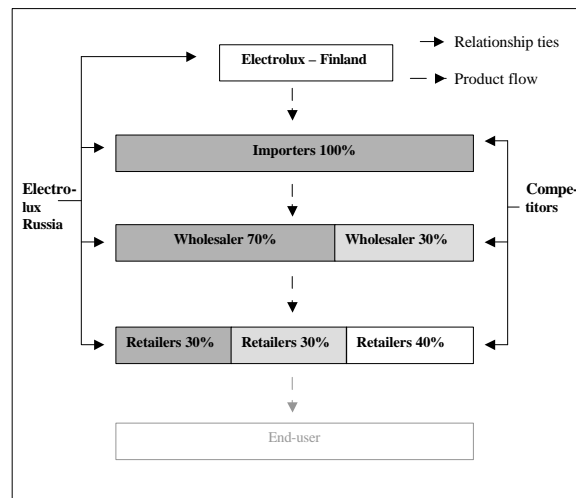
Since Russia opened up its borders in 1991, the import of consumer durable appliances has grown considerably, now accounting for approximately 25 per cent of the total market (in units sold). Electrolux, as well as many other foreign producers, have replaced agency agreements in Russia with their own representation, in major cities. Today the products are sold directly to Russian importers, who take possession of the goods outside Russia and import these on their own account. The main reason for this type of organisational set-up is the difficult and diffuse situation related to the custom clearance system that prevails in Russia for imported goods. (Russian Country Commercial Guide, 1998).

Electrolux is itself unable to bring the products into Russia, due to the current custom clearance system, characterised by unclear rules and widespread corruption. Electrolux has to pay a 43 per cent tax on the value of the goods that it brings into the country while a Russian distributor only has to pay 10 per cent. Hence, the existence of high taxes makes it impossible for Electrolux to bring in the products itself and, at the same time, be competitive on the market. Therefore the only option is to work with direct importers. Thus, crossing the Russian border with its goods is a key function of Electrolux's distribution network. (Strashnov, 1999).

The situation characterising the custom clearance system has led to direct importers being able to pass the goods through customs, by using their personal network of relationships, where circumventions of taxes, customs duties and other forms of regulations also are common place. These

activities have led to many Russian companies, with connections within the custom authorities, specialising in distributing these types of products. This growing “shuttle trade” is especially noticeable in the Russian Far East and in regional centres, particularly Moscow and St. Petersburg. Thus, the distributors play a crucial role in this market, since they control the import, distribution, and sales through retailers, of Electrolux products. (Lahtinen & Strashnov, 1999).

Figure 8.1 The Electrolux distribution network



Source: Electrolux information material, 1999 (modified).

The Russian importers pick up the products from Electrolux’s warehouse in Pori, Finland, and distribute the products to their own organisation and through other wholesalers and retailers in Russia. The majority of the

distributors that Electrolux has relationships with have all three functions, as represented by the dark grey area in figure 8.1 (import, wholesale, retail). Electrolux’s competitors also use these distributors. The wholesalers who account for 30 per cent of all goods also buy goods from direct importers. They act as independent companies, having their own retail shops, accounting for 30 per cent (light grey area in figure 8.1) of the total retail market. Finally, there are small independent retailers, accounting for 40 per cent of all goods sold. They do not have their own wholesale or import function but depend on others to distribute the products to them.

Electrolux’s cooperation with single retailers is largely an underdeveloped area because these do not play any decisive role at the moment. However, Electrolux is monitoring these smaller retailers, although not having direct business relationships with all of them. Information about these retailers is kept in a database, which covers 270-300 retailers. Due to this monitoring system of all retailers, it would take roughly one week for Electrolux to set up its own distribution system, if the custom clearance system changes and became more transparent. This would consequently increase Electrolux’s control in a future distribution network. The customs clearance system was supposed to be changed five years ago but it has now become institutionalised in Russia. (Strashnov, 1999).

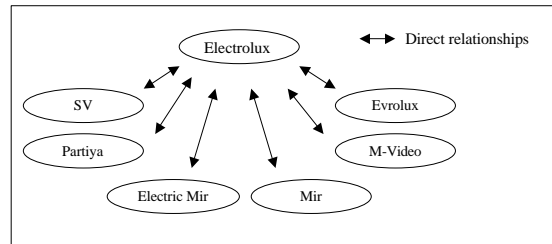
The August 1998 financial crisis has affected many of the actors in the market. It also damaged some of Electrolux’s relationships to its distributors since some of these were unable to make their payments to Electrolux. The market has now stabilised after the crisis but changes take place all the time, as various actors strive to increase their control in the network. A newcomer among the distributors is Eldorado, an enterprise that has focused on setting up stores throughout the regions of Russia. Through this unconventional approach it has become an important player on the Russian market. Eldorado currently has approximately 100 stores in 35-40 cities throughout the country and is the only “true” retail chain in Russia. Electrolux started cooperating with this chain in the summer of

1999 and has now been able to make its products available all over Russia. (Kuoppala, 1999).

8.1.1.1 Network linkages

Electrolux currently works with 13 distributors who perform all three functions in the distribution network (import, wholesale and retailing). Six of these operate on the Moscow market, and the other seven in St. Petersburg. (Laska, 1999).

Figure 8.2 Distributors used in Moscow



Source: Own elaboration, 1999.

These distributors are the “six untouchables” (Laska, 1999) in the Moscow consumer durable appliance market (see figure 8.2). Together, they reach a significant part of the end-users in this area. It is not likely that many new chains will appear in the future since the market is well covered by these actors (Laska, 1999). Electrolux has therefore focused its efforts on keeping and building further relations with these actors. In the future, Electrolux also hope to implement a common logistics system for these distributors, since it would lower its transaction costs.

Electrolux’s policy is to treat its distributors equally price-wise. However, in other aspects of the business relationships and on the personal level, it is hard to do so. Evrolux for example, was Electrolux’s first client to focus its

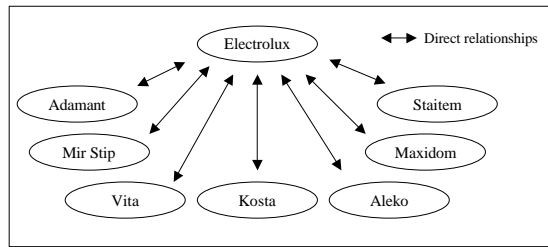
operations on Electrolux’s products (70 per cent of its assortment today), making Evrolux an especially important strategic partner for Electrolux (Buchanov, 1999). Another important partner is SV, due to its size, having the largest number of stores (18) of all distributors. This calls for closer cooperative relations with these actors.

From Electrolux’s viewpoint, having more than one distributor has increased its bargaining power. On the other hand, the importance of keeping a balance between these relationships has also increased, leading to a “dodgy” situation. Personal relationships are, as mentioned before, important in Russia and consequently, the distributors have to be managed on an individual basis. Electrolux has to walk on a fine line when attending to the desires of the different distributors, in order to keep everybody pleased.

The market characteristics are somewhat different in St. Petersburg compared with Moscow. The distributors are not as financially solid as in Moscow and orders to Electrolux are consequently more precise in terms of units. This is an effect of the financial situation in Russia. Financial capital is concentrated in Moscow, which has been the case since the Soviet-era, when products from around the country were delivered to Moscow and then distributed from there. This has not changed, even though cities around Russia today are seeking more autonomy from Moscow. (Naimark, 1999).

Since the distributors in St. Petersburg have such clear-cut needs for Electrolux products, these relationship have to be treated even more personally than in Moscow. (Braverman, 1999).

Figure 8.3 Distributors used in St. Petersburg



Source: Own elaboration, 1999.

The seven distributors used by Electrolux in St. Petersburg together cover a substantial part of the region (see figure 8.3). As in Moscow, some of the distributors are more valuable than others. Kosta and Vita have, like Evrolux in Moscow, focused on Electrolux’s products in their stores. Kosta was the first Electrolux customer in St. Petersburg, and the co-operation between the companies have led to relations based on a long experience of each other. Kosta’s current assortment of white-goods consists of 60 per cent of goods from Electrolux. (Belov, 1999). Vita has half of its white-goods assortment composed of Electrolux-products and is a strategic partner to Electrolux in the St. Petersburg market. (Moukanaev, 1999). This has called for closer cooperative relations with these two distributors.

8.1.2 Competitors

The competitors can be divided into two segments: domestic brands and imported brands. The separation is commonly used in the market, due to clear differences between them with regard to price and quality.

8.1.2.1 Domestic competitors

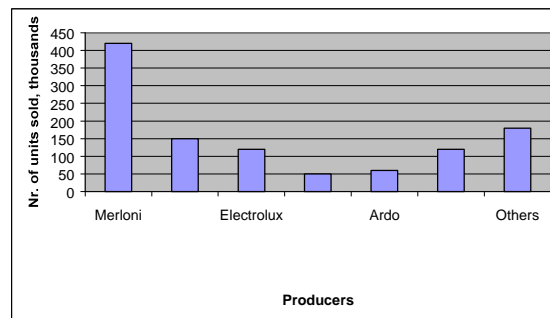
The domestic brands accounts for approximately 75 per cent of the total market (in units sold). In this category of brands, Stinol and Atlant are the biggest players. Stinol mainly manufacture refrigerators and has a clear

competitive advantage over its western competitors. The awareness of the brand is high in the market and the products are priced about 50-60 per cent lower than most imported products. Stinol has thus been able to capture approximately 40 per cent of the Russian market for household refrigerators. Atlant is a Belorussian enterprise, also competing on price. Given that Russia and Belorussia have a customs union, Atlant does not have to pay any custom duties, which is a clear cost advantage. All domestic brands have significantly lower production costs than imported brands. (Pisarsky, 1999).

8.1.2.2 Foreign competitors

The main foreign competitors on the Russian market are Merloni (Italian), Bosch-Siemens (German) and Electrolux, together accounting for approximately 65 per cent of the imported consumer durable appliance market. The imported brands are in general more expensive than domestic brands but have a higher quality. Exceptions are low-priced, low quality Korean and Japanese brands, such as Samsung, Daewoo and Mitsubishi.

Figure 8.4 Imported brands, 1999 market forecast



Source: Electrolux information material, 1999.

Merloni was the first foreign consumer durable appliance enterprise to enter the Russian market. This took place in 1992. A year and a half later Bosch-Siemens entered the market while Electrolux established its operations in 1995. Merloni was during this time able to establish a first mover competitive advantage, supported by extensive advertising campaigns. Merloni has been able to hold on to this advantage since then. The imported brands have now started to find their positions on the market, which has provided for some stability. Thus, Merloni and Bosch-Siemens are Electrolux's main competitors on the Russian market, all competing in the high-end market segment. (Pisarsky, 1999).

Changes occur from time to time in the Russian market. After the crisis in August 1998, Bosch-Siemens lowered its prices significantly, due to large stocks, moving from the high-end to the middle segment of the imported product market. Its stocks had grown considerably due to low sales after the crisis, leaving it with little option but to change strategy. Changes like these are however not common among the producers in the market and are not expected to occur in the future. Radical changes are more likely to come from the distributor side. (Chumakov, 1999).

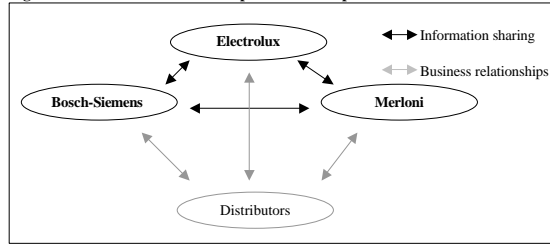
Merloni was the first enterprise to announce plans to start production in Russia, trying to build on its first mover advantage. Nevertheless, it has been forced to revise its plans due to the crisis (Daigle, 1998). Electrolux is also planning to start production in Russia, as is several of its competitors. However, these plans will probably not be realised for another two years (Kuoppala, 1999). There is no doubt that many of the foreign producers will have Russian production facilities in the future but the current legislation, containing several unclear issues related to foreign direct investment, does not support this.

8.1.2.3 Network linkages

All foreign producers share more or less the same distribution network. This intensifies the competition between them, since they are all supplying

the same products. This increases the distributors’ bargaining power since these have the opportunity to outplay the producers against each other. The major foreign producers in the network (Merloni, Bosch-Siemens and Electrolux) have however started to cooperate with each other, after the 1998 crisis (see figure 8.5). This cooperation has to a large extent focused on information exchanges (see section 8.2.2).

Figure 8.5 Electrolux’s relationships with its competitors



Source: Own elaboration, 1999.

8.2 Short-term exchange episodes

In order to examine the relationships between Electrolux and the distributors, a description and an analysis of the different short-term episodes will be made. This will be followed by an analysis of the overall atmosphere characterising the relationships.

8.2.1 Product/service exchange

Electrolux has a wide range of products that it supplies to the Russian consumer durable appliance market. The enterprise provides the distributors with three different brands, all positioned in different segments of the market, each brand targeting end-users with varying degrees of income. The brands offered to the Russian market by the Electrolux Group are AEG, Electrolux and Zanussi, which are all important in the area of imported consumer durable appliances.

AEG is found at the top-end segment focusing on high quality/high price and acts as an image-brand but it is not that well known throughout Russia. The positioning is “The only real German brand on the market” and the products are of German origin only. Concerning the distribution of AEG's products, the choice of Electrolux has been to use selective distribution. The AEG brand is only using three distributors in Moscow and two in St. Petersburg, which gives the brand manager an easier task of controlling retail-prices. AEG is mostly supplying built-in brands to the distributors (60-65 per cent), that is, products installed in wooden panels. This feature is quite common in Russia, accounting for 10 per cent of total sales of consumer durable appliances in the Russian market. (Laska, 1999).

The Electrolux brand is present in the middle- to top-range of the market. The positioning is based on “intelligence” and “care”, as the main reasons for the consumer choice and is meant to be a serious alternative to “Not real German” brands. The brand is nowadays well-known and 13 distributors, together having roughly 75 retail shops in Moscow and St. Petersburg, distribute the products. The price is high but lower than AEG's. The quality of the products is widely recognised and these are “cannibalising” on the AEG brand to a certain extent. The main part of the sales is freestanding products, accounting for 80 per cent, while the rest concerns built-in goods. As to the control-aspect, Electrolux has a harder time controlling all dealers and to make these play evenly and fair. (Chumakov, 1999).

At the same time as the AEG and Electrolux brands are niche-players, Zanussi is a mass-brand operating at the lower end of the imported goods market. The prices are lower, as is the quality and the features are less extensive. The positioning is expressed in the formula “High fashion, High technologies”. Zanussi is the Electrolux Group's volume maker in Russia, whereas the Electrolux and AEG brands work as profit makers. The brand is a newer acquaintance to the Russian market, entering in 1997, two years later than its Electrolux siblings. The Zanussi brand has lately gained much

more brand-awareness and its future looks bright due to the focus-shift from a profit-market to a price-driven market. (Kuoppala, 1999).

The product exchange issue is one of Electrolux’s greatest problems on the Russian market. The supplies are often delayed due to lack of products in the warehouse in Pori, Finland, and due to obstacles relating to the Russian custom clearance system. This indicates at the same time a positive development for Electrolux - it can sell more than it can deliver. (Kuoppala, 1999). However, this creates irritation in the distribution network, leading to greater uncertainty for actors involved. Electrolux’s reputation as a reliable enterprise is in addition damaged, which could lead to losses in the long-term perspective.

Service exchange also takes place between Electrolux and its distributors. For example, joint-activities such as promotional campaigns directed to the end-customers are sometimes planned together. A co-operative budget is then set up where Electrolux and its distributors share the costs. This sharing of knowledge and costs drives the actors closer to each other, making Electrolux and its distributors more interdependent. In addition, Electrolux offer other services to the distributors, such as sales training and product education of shop-floor people. Electrolux have also taken over certain matters, earlier conducted by the distributors, to simplify the affairs between the enterprises. This also leads to more ties of dependencies between Electrolux and its distributors.

8.2.2 Information exchange

The information exchange between Electrolux and the distributors is of both a technical and commercial character. The commercial information that Electrolux provides the distributors with is pricelists, recommendations of in-store prices, information regarding new models, certificates, guarantees and proposals of product placements in stores. The technical information shared is mostly product-related, such as data about product

characteristics. The information sent from Electrolux is mostly on a formalised basis. (Rukavishnikova, 1999).

The distributors, on the other hand, share information with Electrolux concerning pricelists, conditions on the market, political and economic situation in the region, partner specific information to some extent, bank receipts approvals, information about sub-distributors and monthly sales reports (Rukavishnikova, 1999). Moreover, information about wholesale prices and retail prices are given and, from time to time, also information about their stock levels. (Strashnov, Moukanaev, 1999).

On the subject of sharing information through a common computer system, it should be mentioned that IT-systems are generally not especially developed in Russia. This fact has led to the situation that Electrolux today has no computer connections between itself and its distributors, in terms of common logistics systems etc. However, Electrolux is in the process of building an IT-network with its distributors, focusing on retail prices and stock information. Plans to build a local website for the distributors to ease the process of ordering has also been developed, but are still at the initial stage. (Strashnov, 1999). Moreover, there also exists a formal dealer conference every month, where common issues are taken up for discussion and some general information is shared. (Rukavishnikova, 1999).

An important thing to mention is that it is very hard to find reliable information about the consumer durable appliance market in Russia. Employees of Electrolux often use the expression “*these are our best guesses*” when they discuss something about the market. There are not many trustworthy statistics available, relating to such things as total sales in terms of units and volume, market shares per actor and levels of demand. (Lahtinen, 1999). Almost all the information that is given about these matters can be questioned and according to Electrolux, one can put a question mark next to most of this information (Kuoppala, 1999). A reason for this situation could among other things be that pleasing is part of the

Russian business culture and truth is not presented, as Westerners understand it. During the Soviet era, you were not supposed to focus on the truth and reality, and some of these attitudes still prevail in the Russian business mentality. (Lahtinen, 1999) Another existing feature of the distributors is the complex owner structure that many Russian companies have, which makes it hard for Electrolux to actually know who is in charge. This fact complicates the matter for Electrolux in terms of getting information about its distributors, which gives rise to greater uncertainty.

Although information is shared between Electrolux and its distributors, the overall perception is that the amount of information shared, and the depth of it, is relatively limited. The distributors are not especially inclined to share information with Electrolux about their stock levels and, are in general hesitant to provide semi-sensitive information concerning end-user responses and other market-related issues. A possible explanation for this is the cultural heritage stemming from the Soviet-era where information was power. Although the information sharing is not totally open, the trend is that it is improving more and more. In the beginning of Electrolux operations in Russia, there was under no circumstances any sharing at all. Nowadays the dealers start to understand the advantage of exchanging information (Chumakov, 1999).

However, this hesitation to exchange information works in both directions. Electrolux is also restrictive on exchanging certain information. Electrolux is for example not especially keen to give information about what products it has in stock or the quantity of a certain product existing in the storage premises in Finland. Motives for not sharing this type of information is that Electrolux has problems in supplying goods to the Russian market in a timely and regular manner (see section 8.2.1). This is due to the fact that its warehouse in Finland not only supplies the Russian market but also seven other Eastern European countries, which fight for the most demanded types of products (Lahtinen, 1999). Some distributors believe that Electrolux

could improve in sharing information, although they in addition find the relationship reasonably open.

The reality of unreliable information together with the fact that the actors involved in the network are to some degree afraid of sharing information makes this an underdeveloped area in the context of Electrolux’s network structures. A lot of things could be improved if both parties could realise that sharing information would advance the relationships and make both actors better off. In this way, the relationships would be strengthened, making the business relationships more stable and have a positive impact on the overall market, as better information would be available.

To improve the situation on inaccurate information flourishing in the market, Electrolux has started sharing information with its two main competitors, Bosch-Siemens and Merloni. This information exchange started after the 1998 crisis when the companies realised that the market situation would become very tough in the future. Together these companies are co-operating in terms of trying to set the actual market size, what market shares they have and also how their separate businesses with the different distributors have functioned.

8.2.3 Financial exchange

The quantity of money exchanged between Electrolux and a distributor differs. The smallest amount of products that Electrolux sells to a distributor is one truckload of products, which is worth approximately \$ 100.000. There are about 30-40 actors in Russia able to buy such a shipment, which is why special consideration is given to some of these relationships. (Lahtinen, 1999). This does not necessarily mean that the distributors sell the products themselves. The distributor might distribute some of the products to his stores, while the rest is sold to other stores or on the open market (see section 7.2).

Electrolux's policy in Russia is to get prepayments from its distributors for the products. This is one of the reasons that Electrolux managed to cope with the 1998 financial crisis relatively well, compared with its competitors. Many of the distributors were unable to make their payments at this time but since Electrolux had not given any large credits, it managed well.

The crisis was a good opportunity for Electrolux to see how solvent its distributors were. Those distributors who made it through the crisis showed that they were in the market for the long run and, it is particularly these relationships, which Electrolux have focused on. Today, Electrolux give credits on a case-by-case basis, depending on how well the distributor has been able to handle payments in the past. All credits have to be approved by Electrolux financial department in Finland, based on previous reputations of distributors and recommendations from Electrolux staff in Russia. (Rukavishnikova, 1999). Since the economic situation is so volatile in Russia there is a high risk involved in giving these credits. However, it is also an opportunity for Electrolux to show that it trusts its distributors, something that is, as noted before, important in Russia. Many of the distributors do not have the financial means, or, at least, they say so. Thus, business has to be based on getting credit. No Russian banks can today offer credits but if the distributors have a bank guarantee from a Western bank then Electrolux has no problems in giving credits. In most cases Electrolux gets paid on time but it is a constant struggle and the distributors have to be reminded all the time about when their payments are due. (Kuoppala, 1999).

8.2.4 Social exchange

As mentioned before, personal relationships are of key importance to business and every-day life in Russia. Electrolux has realised this and understands that it is vital to have many meetings to form a base for long-term business, founded on personal trust and commitment. The social exchange between Electrolux and the distributors occur frequently and take

place both within and outside the business sphere. Face-to-face meetings are conducted on a regular basis, taking place in Electrolux offices or at the offices of the distributors. It is important that persons from the same level in the two organisations meet – sales representatives meet shop people and brand managers meet directors and managers from the distributor.

The main task of Electrolux sales representatives is to meet shop-floor people as much as possible in order to monitor what is going on on the shop floors and to control price-levels. Brand managers are in addition meeting representatives from the distributors all the time to solve problems, discuss new businesses and to agree on contracts and terms of sales. This, also, works as a way to feel the “pulse” on the market, including trends, fads, structural changes, new customers or for receiving information about the competitors. Even though business is bad from time to time, it is still important to meet distributors to maintain the relationships and not to lose the personal contacts that have been built up.

The use of phones and faxes is secondary in importance compared to personal meetings. They complement each other but impersonal exchanges can never substitute for the personal touch in business dealings and relationships. Social exchanges are both of a formal and an informal character as it concerns the relationship between Electrolux and its distributors. The informal get-together between representatives of Electrolux and the dealers can take any form, ranging from lunches, dinners, beer drinking, sauna bathing, bowling or playing pool. (Prosvirmin, 1999).

There are also occasions when Electrolux invite its distributors to go with the enterprise on different trips. These occasions come about every once in a while and are a means of strengthening the relationships and to get to know the business partners better. Such journeys have in the past been to Sweden, Finland, Italy and different places throughout Russia. The trips are every so often also indirectly work-related since visits to Electrolux's

premises outside Russia are conducted in the context of these trips. For example, distributors have visited Electrolux’s Northeastern headquarters in Helsinki and the Zanussi factories in Italy. In addition, pure “relaxation trips” also occur such as skiing in Lapland, Finland.

8.3 The short-term Atmosphere

All variables described earlier intervene and all combinations of environmental stimulus, enterprise-specifics, and interaction processes form the atmosphere of the relationships between Electrolux and the distributors. The atmosphere is therefore the product of the relationships and displays their overall character.

8.3.1 Power/Dependence

A part of the atmosphere is the power-dependence relationship that exists between the actors involved. The power of one actor is directly related to the dependence of the other actor of the relationship. In Electrolux’s relationships with its distributors, it would be concluded that Electrolux is in general more dependent on its dealers than vice versa. The market has changed from a supplier-driven market, characterised by market-growth in all segments, both horizontally and vertically, to a buyer-driven market.

This has its roots in the financial crisis that rocked the Russian economy, influencing the consumer durable appliance market negatively. Before the crisis the market was booming, and new distributors emerged and the number of shops increased. Distributors were actively searching for producers and they depended on Electrolux to a greater extent than is the case today. After the 1998 crisis many small distributors went bankrupt and bigger actors in the market acquired some of these. This has led to a greater concentration of distributors, increasing their power, in relation to Electrolux and other foreign competitors. In addition, the market has decreased, leading to a stronger position of distributors, compared to that of Electrolux. (Chumakov, 1999).

As clear evidence of this conclusion is the fact that Electrolux cannot pass the goods from Pori, Finland, to the Russian market, without the support of the distributors. The option exists of course for Electrolux itself to bring in the products, but, as stated before, this would not be competitive, due to the nature of the custom clearance system. This leaves Electrolux in the hands of the direct importers, giving them the upper hand in the relationship. The distributors have hereby a relatively strong bargaining power over Electrolux, displayed in the dependency position that Electrolux is in. The distributors can easily choose which products and how many they want to carry in their assortment. Hence, the Electrolux relationship with the distributors has to be handled with care since losing one of the six main distributors in Moscow or one of the seven main distributors in St. Petersburg, could severely damage Electrolux sales and image. Thus, it can be concluded that the distributors have the upper hand in the consumer durable appliance market. (Strashnov, 1999).

However, although Electrolux depends on its distributors, it does not imply that it is incapable of influencing the relationships. Electrolux's products have a very good reputation based on high quality, and the enterprise offer three famous brands (Electrolux, AEG and Zanussi) with a wide range of products in all segments of the market. The enterprise has grown from being virtually unknown in Russia to being one of the top three imported brands, both in terms of units sold and revenues. The status and the range of products that Electrolux offers provides for advantages in its relationship with distributors. End-users are looking for alternatives to Russians brands, driving the shop-owners to take on respected brands in their assortment offering a wider range of choice. This implies that Electrolux is an actor to reckon with in the market and thus in relevant relationships. Also, some distributors mostly have Electrolux products in their assortment (Evrolux, Kosta and Vita) and here, the power/dependence level is on a 50/50 level, even tipping over to Electrolux's favour in certain areas.

Moreover, in some areas, the distributors are embedded into their relationships with Electrolux, through the help that the enterprise gives. Most of the distributors are not that knowledgeable in marketing, a field that Electrolux has great experience in. Now, when Russia is in a transition period towards a more market-oriented economy, distributors need to learn more about the marketing function, something that Electrolux can help them with. Joint marketing activities and training in salesmanship techniques are areas that Electrolux so far has offered to distributors, increasing the distributor's dependence on Electrolux.

8.3.2 Cooperation/Conflict

In any relationship, there are both elements of co-operation and conflict. If the relationship is more characterised by co-operation, the atmosphere is evidently more positive. In Electrolux's distribution network there is not a high degree of conflict, although it exists. Conflict of interest cannot be totally avoided, since the nature of a buying-selling relationship consists of two opposite sides, each side trying to get as much as possible out of the relationship. The selling party wants to get as high price for the products/services and want to do as few adaptations as possible for the buying party. The buying partner is more interested in getting the lowest price possible and getting the seller to adapt to this needs and demands. In the set-up phase of Electrolux's relationships, when negotiations were undertaken, conflicts were expressed. However, in most cases, the disagreements were not extensive. These conflicts were mostly related to prices. There was a mutual understanding among all actors of their respective needs and both sides understood the potential in working together.

These conflicts which currently take place are mostly related to the price-level that Electrolux want its distributors to have on the products. Recommendations are given but the distributors have the right to decide for themselves what price-level they want to have. Dumping of prices has occurred in the past and appears from time to time. Most of this is a

heritage of the crisis where the demand from end-users for high-priced products has declined, driving the distributors to lower prices. Other conflict-related issues are the problems of deliveries, which lead to a lack of products and uncertainty (see section 8.2.1). In addition, evidence of conflicts is also displayed in the three-brand situation that Electrolux has in Russia. The distributors express dissatisfaction with this condition, having to deal with three different instances when in fact it is the same enterprise that carries the brands (Buchanov & Moukanaev 1999).

The degree of co-operation is fairly low and not many tangible resources are shared between Electrolux and its distributors. Co-operation between Electrolux and the dealers are however growing in areas such as marketing and selling. Marketing activities are planned, implemented, evaluated and paid together in co-operation, and Electrolux also educates shop-floor people on behalf of distributors. (Strashnov, 1999). Helping distributors with credits and providing measures to ease things in general for them, is further evidence that some co-operative actions are undertaken. Measures of co-operation have also been taken in the area of controlling retailers, together with S.V. The enterprise cannot control all its shops but Electrolux have taken responsibility for this, keeping an eye on the retail-net, leading to more close and interdependent relations with distributors. (Matsa, 1999).

The frequent visits that personnel from Electrolux are making, at the distributors and their outlets could be seen as signs of both co-operation and conflict. This contradiction is based on the fact that these visits/meetings are conducted both to enhance co-operation between the actors and to control them. Electrolux is offering help to solve daily problems in a mutual manner (co-operation) but the visits are also, at the same time, a means to check whether recommended price-levels are kept, something that is not always done by certain distributors.

Electrolux nowadays has clear objectives of adding more quality to its relationships, rather than focusing on quantity. This “quality treatment” is

done through constantly reminding the distributors that Electrolux is close to them and always is open for more cooperation. Focusing on these customer relations is, something that Electrolux has been able to do better than its competitors. The competitors have mainly focused on volumes, while Electrolux has focused on the quality of the relations. (Strashnov, 1999).

As noted before, after the crisis there has also been an increasing share of cooperation between the competitors. Before the crisis there was no need for cooperation since the market was booming and all players in the market were doing well. After August 1998 though, Merloni, Bosch-Siemens and Electrolux have started to exchange information with each other considering market sizes and distributors in order to get some valid information about this. (Strashnov, 1999).

8.3.3 Closeness

All employees at both Electrolux in Moscow and St. Petersburg considered themselves to have close relationships with their distributors. This was also the case from the distributors’ point of view. Electrolux have been able to establish three relationships (Kosta, Vita and Evrolux), which are very close due to the interdependency between them. The other relationships are also close, demonstrated in the frequent personal meetings that are conducted between Electrolux and all of its distributors. Almost all of the respondents from Electrolux state that they meet representatives from the distributors’ organisations at least 2-3 days in the week, in some cases even more. These face-to-face meetings are vital to maintain, since a personal relationship is of utmost importance. Electrolux in addition performs activities all the time to improve the relationships, indirectly connecting the distributors closer to the enterprise. (Chumakov, 1999).

The distributors all claimed the relationships with Electrolux to be close. The main part did not view themselves as Electrolux customers, more as partners working together for a common goal. They want to grow together

with Electrolux and expressed wishes of getting even closer interrelated to the enterprise.

The policy from Electrolux is to treat every distributor in a similar fashion. However, the relationships that Electrolux has with its distributors are different to each other. Each one is individually handled since having a personal relationship is important. The goal of Electrolux today is to keep the existing distributors and maintain the base that has been established. They want to improve the quality in the relationships and the focus is now more customer-oriented than before. However, even though a close relationship is a prerequisite for lower transaction costs, Electrolux are well aware that this will increase the opportunity costs of finding a new business-partner. Nevertheless, the enterprise have come to the conclusion that they are satisfied with the current distributors and will put the effort into these instead of searching for new ones. The key aspect right now is to find a balance between all relationships and to keep the right division of resources on each relationship.

8.4 Long term Relationships

The short-term exchanges create, in some cases, a pattern that is repeated over time. The actors in the network are affected by these patterns, which take the form of adaptations made in the relationships. Hence, the relationships may become institutionalised in a long-term perspective, which shapes the long-term atmosphere.

8.4.1 Adaptations

All key accounts with distributors are treated on an equal level, from a price point of view. This means that there is stability in the relationship at least from Electrolux’s point of view. Although treated equally from a price point of view, Electrolux have adapted to the distributors in their personal relationships, that is treating the distributors individually due to the uniqueness of each distributor.

Neither Electrolux nor its distributors mentioned that any adaptations had been made to suit each other businesses. However, looking at adaptations in a greater perspective it is clear that Electrolux has made large adaptations to suit the conditions on the Russian market. The diffuse custom clearance system causing Electrolux to depend on distributors to a great extent is the most significant of these. The whole organisation in Russia has been adapted to suit this specific situation. This adaptation was a must; otherwise Electrolux would not be competitive. It is only when the custom clearance system becomes transparent that Electrolux can take control over this function again. This is however not likely to happen anytime in the near future.

8.4.2 Institutionalisation

The Russian consumer durable appliance market is a market in constant change. Electrolux, who only have been active in the market for five years, have not reached the stage where its relationships can be called institutionalised yet. Electrolux have however been able to establish a basis from which its business can expand. If no unexpected changes should appear, similar to the crisis in 1998, this basis will grow stronger and in time institutionalise Electrolux on the Russian market.

8.4.3 The long-term Atmosphere

All short-term exchanges influence the current atmosphere as well as it set the conditions for the long-term atmosphere of the relationships. Given that the future is hard to foresee, speculations about the long-term atmosphere can only be made. These assumptions are derived from the present state of the exchanges and the contemporary atmosphere prevailing in the relationships and the possible influence it will have on the future atmosphere.

If the imperfect supply-situation continues to persist (see section 8.2.1), it will cause Electrolux and its distribution network headaches for a long time. The image of the enterprise will be hurt, the uncertainty in the

network will increase, frustration of the distributors will rise and the degree of conflict in the relationships will grow. All these factors will have a negative impact on the atmosphere in the long-term perspective. The aspects for positive development of the atmosphere are the signs of increasing co-operation in different areas (marketing, selling, logistics). The growing collaboration in these areas together with the intentions of establishing a common computer system, point towards a positive development in the relationships. The involvement in each other's operations will create a larger amount of interdependence in the network, driving the business relationships closer and consequently enhancing the long-term atmosphere.

Electrolux has a solid base to operate from and the employees have formed strong personal networks with the distributors. The personal ties Electrolux has managed to create with the distributors and their workforce vouch for continuing success in the market. If the social exchange continues to be kept on a frequent and regular basis, this guarantees future triumph in the relationships. This, combined with the objective of quality instead of quantity in the business relationships, will enhance the long-term atmosphere. However, the present struggle over information is a barrier for further positive steps in the relationships. The limited sharing and the unfavourable attitude towards exchange of information leads to suspicious behaviour that increases the tension between the actors. The long-term atmosphere will be influenced by this behaviour and it could destroy the relatively good atmosphere that now characterizes most relationships in the distribution network. More transparency in the information sharing process will create a win-win situation and decrease the uncertainty in the long run.

The development of the custom clearance system will most certainly have an impact on the future atmosphere of business relationships. There are no signs of any drastic changes in the near future, which will leave Electrolux dependent on its distributors. However, when production starts in Russia, the dependence will diminish since the goods do not have to pass through

the customs. If the diffuse custom clearance system becomes more transparent, Electrolux will increase its power in the relationships. The enterprise will receive the upper hand and will be a more independent actor, leading to a stronger bargaining position in the relationships with distributors. The possible power-shift could lead to more conflict in the network; hence having a negative impact on the surrounding atmosphere.

9. Conclusions, Recommendations and Future research

This chapter aims to integrate the findings of our investigation in order to answer the research problem. It consists of the conclusions drawn from the analysis of the formal and informal institutions in Russia influencing relationships and the case study conducted of Electrolux's network operations in Russia.

To build sustainable relationships in Russia, the point of departure should be from the human or interpersonal dimensions of business. Western MNC's have to recognize and understand that personal preferences outside professional territories, not laws, rules and requirements, determine how Russians conduct their professional lives. Interpersonal relationships and business relationships are closely intertwined in Russian business. However, although the "human dimension" of business dealings is not the only relevant factor when conducting business in Russia, its significance cannot be stressed enough. It is only with this starting point that Western MNC's can build sustainable relationships in Russia and have the business partners fulfil long-term obligations.

It is important to set aside time to forge personal relationships before any business-related issues can be conducted. It is only then, through these personal ties, that trust will develop. When trust has been established in the relationships, efficient exchanges can take place and uncertainty will be reduced and opportunistic behaviour be restricted, thus improving the conditions for long-term co-operation.

Once the personal relationships have been formed, it is critical to sustain these, especially when business is slow. To meet face-to-face frequently is important. There should be a regularity regarding what representatives are to meet a specific Russian businessman. Since relationships are based on a personal level, it is evident that the same person should meet the opposite partner as much as possible, not changing representatives from time to time. Employees at a Western MNC should not hesitate to socialise with its

business partners outside working hours. A suggestion is to invite its partners for trips in order for the parties to get a deeper understanding of each other. These activities will steer the relationships closer towards one another and increase the chances for long-term commitment to the relationship. The importance of meeting the counterpart frequently is related to the need to feel the pulse of the market/relationship, hence improving the possibility to evaluate and control that part of the surrounding environment. This control offers stability and reduces uncertainty, both essential aspects when striving to build sustainable relationships in the volatile environment characterising Russia.

In business relationships in Russia, it is impossible to rely solely on laws and contracts as a base for long-term business since the legal system does not offer any support for a violated enterprise. The legal framework is insufficient with contradictory and changing rules and the enforcement power is modest. Hence, the advice is to rely on personal relationships, based on trust, if the MNC is to build effective and sustainable relationships in Russia.

Moreover, to build a sustainable relationship in Russia, it is important to meet people who have the power to decide. These people are often concentrated at the top-level. It will call for many meetings with subordinates, writing of letters, numerous telephone calls and handing out of gifts to get to these decision-makers. The giving of gifts and favours is an important part in Russian relationships and is ingrained in the business mentality. The gifts/favours should not be seen as bribes, more as a symbol of respect and as an extra selling cost. It is money well spent and drives the actors involved closer and creates personal bonds, which, as emphasised here, are central ingredients to relationships in Russia.

In the establishment of relationships it is advisable to be patient, well prepared and extremely careful in what you articulate and how you express yourself. A reason for being cautious in the build-up phase is the low

understanding of mistakes. One or two mistakes in the beginning can lead to the termination of the relationship or at least postponement. However, Westerners have a certain degree of status and mistakes are easier overlooked if done by foreigners.

In business communication, one should not be offended by strong emotions and be aware of the Russian businessman's self-assurance concerning business. Moreover, a Western MNC should never remind its Russian partner of an error made in the past. This will be a sign of disrespect and will most certainly hinder the creation of a long-lasting relationship. Since the Russian culture is built on respect for experience and age, it is crucial to send older, experienced and high-ranking representatives to meet a Russian business partner operating in the top management.

Most Russian businessmen are long-term oriented concerning relationships, but have short-term focus in business dealings. The focus is on the current situation and what you can win now, not on long-term business with future dividends. It is considered pointless to speculate about the future since the Russian environment is so dynamic, leading the centre of attention towards fast profits. Facing these realities, Western MNC's aiming at building sustainable relationships in Russia, have to add value directly, both on the enterprise- and individual level, while at the same time convincing the opposing party that the enterprise will be committed to the relationship for a long time.

Russian companies face a problematic situation today to finance their operations. Domestic banks cannot provide financing to local companies, instead relying on credits from business partners and bank guarantees from foreign banks to be able to perform their business activities. A possibility for Western MNC's to make the relationships more interdependent is to help these companies with financing and credits. This will be an indication of trust towards the counterpart and will facilitate establishing long-term co-operation. Nevertheless, the probability of not getting the money back

has to be taken into consideration and it is wise to gain experience about the customer first before engaging in any credit-giving.

A good way for a Western MNC to interlock the Russian corresponding enterprise with the relationship is to provide help with marketing and selling. These two functions had been lacking during the Soviet-era due to everything being in short supply, leading to the feeling of uselessness to satisfy customers or meet their requirements. This produces an opportunity for Western MNCs to share their knowledge in these matters, since this is currently in demand. The MNCs knowledge in marketing and selling, combined with the Russian partner's experience in the Russian market could create synergy effects. These synergy effects will in addition direct the parties to interdependence and tie them together, all fundamental variables in the sustainable relationship formula.

Information sharing is limited throughout Russian business areas, a legacy from the communist-era where information was power. To escape this problem, Western MNC's should lead the way and provide information to the Russian partner. It is a good way to convince the Russian business colleagues that there is nothing to fear from giving information. To receive relevant information, the primary source is personal contacts, not official sources. Personal relationships, influenced by trust, are the basis for information sharing in Russia. The trading of data will committ the parties to the relationship and hence boost the chances for a sustainable relationship.

9.1 Recommendations

The recommendations put forward are intended for Western MNCs that want to build sustainable business relationships in the dynamic environment characterising Russia. They are based on the conclusions and should be viewed as guidelines, not as universal solutions for creating sustainable business relationships. The outline of the recommendations is split into two sections (see table 9.1). The first column refers to the

establishment stage, where the actors are about to start working together, not having broad experience about the opposite counterpart. These recommendations lead into the second column, which is related to the situation when the relationship has been rooted and the actors are more involved and knowledgeable of each other's operations. The focus during the habitual stage is directed towards maintaining and improving the current relationship.

Table 9.1 Recommendations

Establishment stage	Habitual stage
Contact those with power to make decisions	Set aside time to meet with Russian managers/owners frequently
Send top-level representatives to meet with Russian managers/owners. Show respect for age, experience, rank, and position	Meet people on equal level in respective organisation all the time
Be well prepared, cautious and patient	Provide impetus for closer co-operation
Set aside time to build personal relationships	Never stop "networking"
Secondary information not always reliable – use primary sources	Lead the way regarding information exchange, display the advantages of sharing information
Give gifts	Nurture the relationships all the time (trips, dinners etc.)
Add financial value directly	Provide help with financing, credits and marketing
Demonstrate long-term commitment	Establish own office in the country
Be prepared to meet outside the business sphere	Conduct frequent formal and informal meetings

Source: Own elaboration, 1999.

Regarding Electrolux's operations there are some specific recommendations apart from those relating to sustainable relationships. First of all, marketing is becoming an increasingly important issue on the Russian consumer durable appliance market, especially after the 1998 crisis, which made the competition fiercer. Electrolux has no employee with a university marketing degree working for the enterprise. Through hiring a marketing specialist new ideas and perspectives could be brought forward, which would enhance Electrolux's competitiveness.

Concerning information sharing, Electrolux should be more active and initiate this process, leading the way. Even though the distributors are reluctant to share information, improvements in this area can only be made if Electrolux starts them since it is in the cultural heritage of the Russian distributors not to share information.

Having to deal with three different managers, one for each brand, from the Electrolux Group concerning product-issues has caused frustration among the distributors. This, because Electrolux originally only had one brand and later supplemented this with the AEG and Zanussi brands which complicated matters. The best way to get around this is to have the same managers promoting both the Electrolux and AEG brands, since these two are most alike. Zanussi, the volume-maker, is making the best progress at the moment due to its lower prices and should therefore be treated separately. The Electrolux and AEG brands have been worse off after the crisis and are at the moment not likely to improve due to the low demand for high price/high quality products in Russia. If the Electrolux Group does not solve this issue, it will damage the relationships with distributors especially in a long-term perspective.

The plans Electrolux have for production in Russia should be followed through, assuming that it is cost efficient. Electrolux would this way reduce its dependency on the distributors and leave themselves in a better bargaining position. The imperfect supply-situation could also be improved this way since the products would have to pass through the complicated custom clearance system.

9.2 Future Research

There are some areas that are touched upon in this thesis, which could be investigated further. First of all, creating and building trust with a Russian partner is a subject that is closely connected to that of building sustainable business relationships. However, this thesis does not specifically clarify

what measures should be taken to create and build this trust. Which specific measures can be used to do this could be researched further.

Second, the recommendations made in this thesis are related to the consumer durable appliance industry. The conditions for building sustainable business relationships might differ in other industries. Further research could therefore be done; investigating to what extent these recommendations are transferable to other industries.

The relationships that are explored in this thesis concern business-to-business relationships. For the case company, Electrolux, it could be of interest how relationships with end-customers can be built. At the moment, Electrolux does not have any contact with the end-customers since they do not have any retail shops. Through closer co-operation with retailers and perhaps opening up its own retail shops, these relationships will grow in importance and consequently, make them interesting for future research.

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Electrolux, Moscow office (October 25-27, 1999)

Anton Chumakov, Product Line Manager white goods and major floor care
Jaakko Kuoppala, Brand Director Zanussi
Timo Lahtinen, Sales Director, Russia
Anastasiya V. Laska, Brand Director AEG
Dimitry Pisarsky, Consulting Marketing Director
Michael Prosvirnin, Sales Representative
Natalia Rukavishnikova, Customer Care Department Manager
Dmitry E. Strashnov, Sales Director, Moscow

Moscow distributors (October 26, 1999)

Dmitryi Buchanov, Sales director at Eurolux
Mikail A. Matsa, Chief of home appliances department at SV

Electrolux, St. Petersburg office (October 28-29, 1999)

Alexei L. Brawerman, Sales Director
Andrey Lvov, Sales Manager
Inga Naimark, Sales Manager

St. Petersburg distributors (October 29, 1999)

Anatoly, N. Moukanaev, General Director at VITA
Igor Belov, General Director at KOSTA

Phone Interviews

Electrolux, Helsinki office (October 22, 1999)

Ilpo Helander, President of Electrolux Russia

Appendix

Interview guide – Electrolux

The following collection of questions should be seen as basis for the interviews. Since the respondents all had different areas of expertise, the interviews focused on the questions that suited their specific fields.

1. History of Electrolux in Russia

When did Electrolux start operations in Russia?

Which cities are Electrolux active in?

How have the sales been over the years?

How many employees does Electrolux have in Russia?

2. Market characteristics

What characterises the Russian consumer durable appliance market?
(Is it stable, dynamic, predictable?)

What demand is there today for consumer durable appliances?

How has the demand fluctuated since 1991?

What customer segments is Electrolux targeting?

3. Establishment of the distribution network

What was the structure of the planned economy distribution system?

What distribution system existed in Russia when Electrolux established in Russia?

How has Electrolux proceeded with the establishment of their distribution network?

Why were these distribution channels established?

How have the developments of these relationships been?

How were the distributors found and how were the negotiation undertaken?

4. Facts about the network

4.1 Actors

How is the distribution of Electrolux's products currently carried out?

Give an analysis/description of the different distributors! (Strategies, organization etc.).

How would you characterise your relationship with the distributors?
(Stable, dynamic, predictable etc)

Are there any specific individuals/organisations of importance, outside of the distributors?

What criteria does Electrolux have in selecting its distributors for example coverage, size, etc.?

How much experience do Electrolux's distributors have from the Russian market?

Were they also present during the Soviet era?

Who took the initiative in the relationship?

How often do you meet with your distributors?

How are these meetings conducted?

Where are these meetings conducted?

What kind of marketing activities do Electrolux have towards their distributors?

Is it common to change distributors? If so, why?

How dependent is Electrolux on the different distributors?

Does Electrolux make any commitments to the distributors?

Does Electrolux make any adaptations to suit the distributors?

What problems has Electrolux experienced in its distributor relationships?

What bargaining power does Electrolux have, compared to the most important distributors in Moscow and St. Petersburg?

How does Electrolux coordinate its logistics with its distributors?

Is it possible for Electrolux to establish its own distribution network that is, take away its current distributors and deal directly with retailers?

How does Electrolux evaluate its distributors?

Are there any plans to modify/extend the relationship in the future?

What does Electrolux do to maintain/improve the cooperation with the distributors?

What are the mutual benefits of the relationship?

Does any of Electrolux's relationships give any indirect advantages?
(Status of Electrolux brand and status of distributors name etc).

Does the relationship function, as it was initially meant?

4.2 Contracts with the actors

How are the contracts with the distributors prepared and completed?

Does the legal system support these contracts?

Are the contracts held?

Are the contracts held because of personal relationships, that is because of trust?

4.3 Competitors

What companies are Electrolux competing with in particular?

Is there any cooperation between the competitors?

Does Electrolux use the same distribution network as other producers?

4.4 Resources

What resources are shared between Electrolux and the distributors?
(Common computer systems etc.).

What resources do the distributors offer that Electrolux does not have?

What tangible resources does Electrolux have? (Storing and selling, computer and information technology, financial means etc.).

What intangible resources does Electrolux have? (Customer knowledge and relations, technical, commercial and administrative know-how, image etc.).

4.5 Activities

What activities do Electrolux and the distributors perform?
(Ordering, transportation, stock handling, ownership, payment, financial risks/credits etc)

Are there any value increasing activities performed by Electrolux and their distributors? (Promotional activities, after-sales service, training etc)

Is there any coordination between Electrolux and the distributors concerning these activities?

5. Product Exchange

What products does Electrolux supply to the Russian market?

Are Electrolux in some way selling used goods i.e. used AEG, Electrolux and Zanussi appliances?

What future plans does Electrolux have for the different product groups?

6. Financial exchange

What kind of financial agreement does Electrolux have with its distributors?

What are the terms of payment?

Does Electrolux provide any financial support to its distributors?

How have Electrolux dealt with the exchange of the Rouble?

Does Electrolux in some way conduct barter trade? (Good for good).

7. Social exchange

Does Electrolux meet with its distributors, "outside of the office"? (Dinners, representation etc).

How formal are these meetings?

Do you consider your relationships with your distributors to be close?

Do you consider your distributors to be "simply" a business partner or are they also personal friends?

8. Information exchange

What kind of information does Electrolux exchange/share with its distributors?

(Technical, economic, customer responses etc).

Does this information exchange take place on formalised basis e.g. monthly papers or is it conducted less formalised, from meeting to meeting?

How are the distributors supported and instructed?

9. Culture

How would you characterise the typical Russian business man/woman?

What do you think is the most important aspect, of the alternatives stated below, in a business relationship?

A detailed contract stating both parties rights and obligations or,
A relationship based on personal trust

Which one of the above mentioned factors do you believe best characterises Russian business relationships?

Do Russians typically conduct business meetings with their partners mostly in groups or mostly one-to-one?

What is your opinion of the statements mentioned below, concerning how typical Russians act and behave:

- Russians ideally achieve alone and assume personal responsibility or,
- Russians ideally achieve in groups, who assume joint responsibility

- Decisions are conducted fast and are taken by the representative from the company or,
- Decisions have to be referred back by delegate to organisation before a decision can be made

- Business-meetings are characterised by coolness and self-possessed behaviour or,
- Business-meetings are characterised by thoughts and feelings expressed verbally and non-verbally in a loud and emotional way

Interview Agenda

- Physical contact or gesturing is not common and is almost taboo or,
- Touching and gesturing commonly occurs

Is there any special "Russian" way of negotiating contracts?

Interview guide - Distributors

Please state your name and position for the record.

1.1. General

When did your company start operating on the Russian market?

What geographical area do you cover?

What cities is your company active in?

How many employees do you have?

How many retailers do you have?

What other companies' products do you carry?

What characterises the Russian consumer durable appliance market?
(Stable, dynamic, predictable, competitive situation, customers etc.).

What do you consider to be the strengths of your company?

1.2. Relationship with Electrolux

How many years has your company worked with Electrolux?

Was your company approached by Electrolux or did you take the initiative?

How were the negotiations undertaken?

Were there any conflicts of interest?

How have the developments of the relationship to Electrolux been?

Does the relationship function as it was initially meant?

What is your overall perception of Electrolux?

Have your sales increased since you started working with Electrolux?

How do you benefit from the relationship with Electrolux?

How dependent are you on Electrolux products and brand?

How is your company's distribution of Electrolux products currently carried out?

Do you consider your company to be close to Electrolux?

How often does your company meet with representatives from with Electrolux?

What resources are shared between your company and Electrolux?
(Common computer systems etc)

Are there any other dependencies or ties between your company and Electrolux?

Have your company made any adaptations to suit Electrolux's operations?

What problems have your company experienced in the relationship with Electrolux?

How does your company see the future with Electrolux?

Interview Agenda

What tangible resources does your company have? (Storing and selling, computer and information technology, financial means etc.).

What intangible resources does your company have? (Customer knowledge and relations, technical, commercial and administrative know-how, image etc.).