# “Business Culture in Modern Russia: Deterrents and Influences”


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| **AUTHORS** | Andrei Kuznetsov<br>Olga Kuznetsova |



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# Business Culture in Modern Russia: Deterrents and Influences

Andrei Kuznetsov, Olga Kuznetsova

## Abstract

In this paper we identify three major influences affecting entrepreneurial culture in modern Russia and other countries that were formerly parts of the Soviet Union and evaluate their effects. It is argued that the diffusion of new patterns of business culture required by the process of market reforms in the country is going to be slow and idiosyncrasies will persist. As a result, a noticeable variance between national and international entrepreneurial culture is to remain a challenge to foreign firms doing business in Russia and a deterrent to the process of Russian marketisation in general.

## Business Culture, Economy and Systemic Change

National culture is instrumental in arranging professional values and attitudes and determines the forms in which some universal principles get incorporated into business practices and thus become generally acceptable, for the duration of a particular historical period, at a national level.

Societal culture puts constraints on the economy. They are informal but nonetheless, as noted by North (1990), very pervasive. As an inherent social institution, culture influences some "written rules" that enable and guide common interactions within societies. Culture also affects the progression in economic life. According to Arrow (1974), it asserts an additional set of variables expressing social demand through "internalised demand of conscience", which has real, practical economic value and increases the efficiency of the economic system. Changes in the economic foundations of the society cause changes in cultural norms and values. This in turn stipulates alterations in the "demands of conscience" in respect to the economic system. Clearly, contradictions between culture and the economic environment are inevitable. We may expect economic parameters to be capable of faster and more radical change than those attributed to culture. The latter as an aggregation of accepted social rules endorsed by tradition, long standing norms and role models secures the continuity of features constituting a national character and other nation specific features.

Post-communist transition has proved to be one of those rare historical events in which both the culture and economy experience radical changes simultaneously. Consequently, culture cannot play to a full extent its role of an institutional safety net helping to structure economic relations according to the premise of the "demands of conscience". The process of economic and social changes has taken a particularly dramatic form in countries that were formerly parts of the Soviet Union because there the central planning model had been most prominent, putting these countries, in terms of social and economic experience, at odds with other countries at the similar level of development.

Such a situation is bound to put particular stress on the formation of the national pattern of entrepreneurial and managerial behaviour, which counts reliance upon past experience and stereotyping among its important elements. This behaviour is built around a search for information about situations and options for the purpose of taking business decisions. Information is then processed and evaluated in the course of what is essentially selective filtering of input against certain criteria. If some of them become vague the efficiency of decision-making may suffer. Conventions associated with a national culture occupy a prominent position among these criteria as they are related to both institutional and subjective aspects of business. In their established form such conventions constitute a national business culture, making it easier to decision-makers to choose successful responses to signals emanated by the economic environment and the society.

In modern Russia the task of developing adequate attitudes in terms of business culture represents a formidable challenge. First, radical transformation of the economic set-up urges economic agents to produce responses that are entirely new to them. Importantly, these responses have to be based on the set of values and the type of rationality which are different in comparison to those that was significant before and, due to social inertia, still constitute a notable part of the national cul-

tural tradition. Second, information coming from the economic environment is likely to be distorted, confusing and incomplete following the inefficiency of transitional institutions (Kuznetsov, 1994).

Under these circumstances the ability of entrepreneurs and managers to take decisions and develop long-term strategies is hampered. Academic literature suggests that economic agents should react by attempting to obtain greater knowledge or redefine their decision problem so that uncertainty is no longer critical (Cohen and Cyert, 1965). Because decision-making in business has a cultural dimension, the accumulation of knowledge and problem setting will be affected by major cultural influences to which entrepreneurs and managers are exposed, including the national cultural tradition as carried over from the previous historical period; new cultural trends induced by changes in domestic business and economic environment; the example of business practices in countries with mature market economies.

To trace the three influences in the behaviour of economic agents is a very important issue that may throw light on the future of Russian business culture as well as help to explain some unorthodox patterns of behaviour existing in transitional Russia (Hansen, 2002).

## Capitalist Values and the Realities of Transition

The doctrine of free entrepreneurship contradicts everything that the Soviet system stood for. Yet we cannot expect modern Russian entrepreneurs to liberate themselves entirely from any social experience gained under socialism. This is as much impractical as impossible because common social experience provides the framework for a meaningful exchange of information necessary for carrying out business activities. As pointed out by Hampden-Turner and Trompenaars (1996), cultures are neither wrong nor right: hereditary cultural holdings provide orientations to issues "because there would be chaos unless they did so." Accordingly, in modern Russia, there is a pronounced tendency for informal rules, which previously existed as a superstructure over now extinct formal rules, to remain in service as temporary substitutes for more formal arrangements. This fulfils the prediction of the institutional theory that in the absence of a developed institutional infrastructure informal constraints including those rooted in a common cultural background become crucial in resolving basic exchange problems among economic agents (North, 1990).

In the context of a transitional economy this brings about particular complications following a contradiction between the origins of informal constraints applied (a centrally planned economy) and the circumstances under which they are put to use (a proto-market economy). A conflict between informal rules in use and formal rules introduced in the course of reforms becomes inevitability. There is a paradox: economic agents have to comply with informal constraints until a functional institutional framework is in place but by doing so they make the installation of the latter even more difficult. Another aspect of this problem is that reliance on a transient set of rules brings to life a specific type of short-term oriented rationality that precludes businesses from strategic commitments, which has a negative effect on economic growth in the country.

Understandably, in modern Russia the selection of norms of behaviour and experiences carried over from the past by managers and entrepreneurs reflects the realities of the present set-up. What makes this choice bear important social and cultural consequences is that almost everything that was praised under the old system appears to be irrelevant or even counterproductive under current circumstances while behavioural patterns that were anathematised or seen as improper acquire importance. The shift in perspective puts the first generation of Russian entrepreneurs, in terms of culture, in a rather uncomfortable position of being at odds with the traditional cultural model. They are forced to abandon some of the norms, which for millions of Russians are still synonymous to a socially responsible model of behaviour, in favour of practices that were stigmatised during the lifetime of several generations. The paradox here is that new entrepreneurs act objectively as propagators of new cultural norms and values which, however, in the minds of many of their compatriots bear a strong resemblance to something old and well known, something they grew accustomed to regard as vicious on moral grounds.

This contradiction is prone to create strife and tension in the relations between social strata. In modern Russia the circumstances under which the advancement of capitalism occurs contribute to the vilification of the image of the entrepreneur. This prejudice has its origin in the times

when most forms of seeking economic self-interest were outlawed as antisocial and subversive as it was necessitated by the contemporary economic and political systems. In terms of culture this transferred into an attitude that treated the activity of that kind as something low, indecent and shameful. Still nowadays opinion polls demonstrate that Russian public tends to deny entrepreneurs such virtues as morality, integrity, talent or hard work. Characteristically, Russians regard dishonesty and connections as the keys for business success in their country (based on the survey of 2000 Russians by the All-Russian Centre for Public Opinion. See: *Journal of Commerce,* November 21, 1997). The torrent of derogatory jokes about "new Russians" is another sign of the resistance that the traditional culture offers to the intrusion of new values.

## Business Culture and the Criminalisation of Economy

The controversial character of the new set of entrepreneurial values and their antagonism with the previous social experience provides only a partial explanation of a negative attitude in the society. The realities of post-communist transition are at least as much responsible for the misrepresentation of these values. The Russian variant of capitalism is widely perceived as brutal and unfair. Consequently, free market values get a perverse interpretation within the Russian context. Public attitude is influenced not by the idealised concepts of new values but by the way they reveal themselves in the activities of the people who are popularly seen as the standard bearers of a new society. The latter, however, cannot inspire sympathy towards the values they allegedly represent (or rather misrepresent) because, as demonstrated by Nellis (1999), in the absence of institutional safeguards they are not encouraged to behave fairly.

The important point is that the morality of business people is not a function of propaganda or ethical education "but is produced automatically by institutional arrangements" (Barry, 1998, p. 10). Without institutional constraints self-interested behaviour with its focus on cutting costs meets no limits. This pushes managers and entrepreneurs to adopt a "one shot" business strategy which entice them to defect from agreements and defy co-operation. The direct outcome of these ambiguous circumstances is that there is hardly any generally recognised and implemented set of behavioural rules to induce a collaborative conduct. The consequences are serious. Economically, this increases a risk premium and transaction costs restricting the possibility of economic growth. Socially, this undermines the image of capitalists as fair, moral and reliable members of the society.

Interestingly, the subjective value that Russian business people put on moral qualities is high. According to Radaev (1998) honesty and decency were mentioned by 79% of respondents to his survey as the most desirable features in business partners followed by trustworthiness and responsibility (29%). However, there is little evidence that this appreciation of high moral values has had any noticeable practical impact on business activities in the country. It is not uncommon for members of the business community to maintain that the current economic and institutional set-up in the country precludes honest ways of making money (Latynina, 1999).

This situation contributes to the unpopular image of the entrepreneur and businessman. In contrast to other countries, in Russia there is a considerable degree of ambiguity regarding some most fundamental issues including ownership rights, the role of contract, the concept of legality, the notion of business ethics, etc. To use Mario Nuti's expression (Nuti, 1992), Russia is currently in the stage of an "economic non-system", that is, a situation in which the old economic mechanisms have been demolished, but the new ones have not yet fully materialised. This leaves to the discretion of individuals many aspects of business, which under other conditions would be properly regulated by legal, professional, social and cultural conventions. Even the most meritorious of entrepreneurs find it difficult not to cross the line between legality and what is called sometimes "shadow" or "grey" economy. According to the Expert Institute of the Russian Union of Industrialists and Entrepreneurs (Yegiazorova, 1997), up to 75% of firms practice concealment of a considerable proportion of income, placement of capital abroad and evasion of excise duty and smuggling as the most common forms of "shadow" activity. A report prepared by the Institute of Sociology of the Russian Academy of Science claims that nearly two thirds of the entrepreneurs would be ready to bribe an official and eight out of ten consider tax evasion and fraud a viable business tactic (Dushatski, 1998, p. 71). Direct criminalisation of business activities is an estab-

lished feature. According to some sources, as many as 22,5% of Russian entrepreneurs have previous convictions for criminal offences and every fourth of them has connections in the world of crime (Российское предпринимательство, 1994, p. 5).

The credibility of new business values is threatened further by the fact that the entrepreneurship culture is seen by a considerable part of Russian population as the continuation and development of some dodgy and dishonest practices that existed in the Soviet days. This prevents private entrepreneurship from being regarded as a domain of goodness and disguises its new origins. The social profile of some typical entrepreneurs does not help the revaluation of entrepreneurship in the national cultural context either. Many of them (61% according to some estimates (Santos, 1995, p. 145)) used to be associated with the bureaucratic apparatus of the Young Communist League, the Communist Party and local Soviets in the murky years prior to *perestroika.* During this period corruption and low moral of *nomenklatura* caused contempt and mistrust in the vast groups of the society which now is projected on new entrepreneurs. Post-communist transition allowed the members of *nomenklatura* to trade political power for wealth and gave them a head start as entrepreneurs, industrialists and bankers. As a result they infected the entrepreneurial culture with depravities, prejudices and idiosyncrasies characteristic of Soviet bureaucracy, including the subculture of intolerance, incompetence and corruption.

## "Virtual" Economy versus Market Economy

The inadequacies of legal frameworks and the frequent changes in regulations (tax and bank regulations are especially notorious, being confusing and short-living) increase transaction and, sometimes, starting-up costs. Probably even more importantly, they contribute to the general atmosphere of low trust. As a result building up informal relations has grown in importance inasmuch as the bounding power even of the most explicit contractual agreements may be inadequate.

In Russia, the tradition of relying on informal networks as an element of business arrangements has a long history. It emerged as a reaction to the rigidities of the official Soviet production system with its emphasis on technological determinism leaving very little space for the human factor. To compensate for this, certain structural, cultural and ideological norms came into existence to provide an informal hierarchy cementing together suppliers and buyers, creditors and debtors. As a result the Soviet production system relied on informal arrangements and networks almost as much as on the formal ones (Popova and Sørensen, 1996). In the period of transition, successful networking has become an even more significant factor as business people sought to compensate the poor performance of formal institutions with arrangements based on personal contacts. The proliferation of informal networks affects the character of market relations. On the one hand, they imply long-term relations with suppliers and customers that create zones of trust within the general environment of distrust that help to reduce transaction costs. Trust also forms a basis for committing resources and mutual development and co-ordination of activities (Popova and Sørensen, 2001). On the other hand, by their nature networks, in particular informal ones, seek to maintain exclusiveness. In the Russian context, networking does not mean getting better knowledge of business partners and their needs but rather pursues the goal of conspiring against outsiders and avoiding legal control over financial and other transactions. Radaev (1998) reports on the growth of "negative solidarity" that consolidates the entrepreneurs against "outsiders", including the authorities. Business networks strive to resolve any "problems" internally, which provides more flexibility and more chances to reach a mutually satisfactory solution than available formal methods but often at a considerable social cost, for example poor collection of taxes and price fixing.

Emphasis on informal arrangement contradicts the idea of competition as a fundamental quality of an efficient market. It promotes exclusivity as a feature of business relations, which is of course counterproductive considering that the assumption of the equality of all economic agents is a major condition of an efficient market.

This tendency to substitute networking for the market is one of the features of the "virtual" economy developing in Russia, the other being the spread of barter in the place of monetary transactions. Emphasis on informal arrangement contradicts the idea of competition as the fundamental quality of an efficient market. The cultural aspect of this practice is also detrimental. It promotes ex-

clusivity as a feature of business relations, which is of course counterproductive considering that the assumption of the equality of all economic agents is a major condition of an efficient market.

Uncertainty, which comes out as probably the most important single feature of the Russian business environment, has conflicting consequences for entrepreneurs. In a sense, some degree of uncertainty is good for entrepreneurship as it opens opportunities to those entrepreneurs who are prepared to create circumstances rather than accept them (Casson, 1995). In the first years of transition in particular, the atmosphere was charged with the sensation of abounding opportunities for quick enrichment caused to a great extent by the fact that the dismantling of the socialist state had left ownership vacuum in respect to enormous amount of riches. This very incident, however, has given impetus to the criminalisation of the Russian economy. According to some sources, organised criminals are in control of nearly half the Russian economy (Shelley, 1997). The consequences for honest entrepreneurs are damaging. The cultural stereotype of the entrepreneur was harmed as the strong interest of the Russian mafia in the economy has blurred the difference between crime and business in the eyes of ordinary Russians.

## Importing Business Culture

The influence of the example of business practices in countries with mature market economies on the development of Russia's business is predictably limited, in particular as far as small and medium businesses are concerned. Russia remains a rather closed economy. Most producers cannot compete in the world market and have no resources to establish any form of business relations with foreign firms.

There is a number of ways in which entrepreneurs may be exposed to foreign influence. One of them is professional education. Numerous business and management courses built around standard western programmes are available to Russians managers and business people. They are instrumental in shaping their outlook and thus affecting their professional values and attitudes which eventually will become part of their culture. Yet the experience that these authors have had with training projects in the former Soviet Union suggests that the impact of business education is less decisive than it could have been if the reality of the Russian business environment had had more resemblance to what is taught in classes. It does not help either that, as shown by Holden (1998), foreign educators (and not only they) are slow sometimes to do away with stereotypes in their perception of post-socialist economies and societies. Kolodko's (1998) irony is well justified when he writes: "Some advisers still claim that there is a market economy in Russia only the people don't understand it yet. As long as they do so, there is no market economy".

An actual business contact and direct collaboration with foreign firms may be seen as a particularly important form of exposure to modern market culture. However, while short-term episodic contacts are likely to have only moderate impact, the contribution of those foreign firms that look for serious and long-term success in the Russian market has its own limitations. Although there have been not so many examples of that kind, it is reasonable to predict that in such case foreign firms are likely to be keen to adjust to local conditions rather than change them. The adjustment may, in its extremes, either take the form of a foreign firm positioning itself as an enclave by minimising any contacts with domestic businesses or encourage it to accept or imitate local custom. Either way, the cultural "mission" of foreign entrepreneurship is going to be hampered.

On the whole, even under ideal conditions, the contribution of cultural "imports" cannot be decisive. Appearances may hold but the content of cultural norms has to be determined by the structure of incentives and the institutional set-up existing locally. Western methods and attitudes can be adopted by rational individuals only to a limited degree and in such a form that does not contradict their realised self-interest. Literature on Russia reveals no apparent correlation between the grade of westernisation of business people and an increase in the "moral" component of their behaviour. There is evidence, however, that newly obtained skills may be used fraudulently. Thus, sophisticated marketing ploys were employed by pyramid companies to persuade millions of Russians to invest their money. The vast majority of investors were to regret their gullibility when the pyramids had duly collapsed. Ironically, the most scandalous scheme involved the MMM investment fund, which

even managed to impress *The Economist*, finding in MMM a rare example of a wholly Russian-owned company "able to devise an effective marketing campaign" (*The Economist*, 1994).

## Conclusions

It is now widely acknowledged that a market economy in Russia has been slow to develop. In this article we focused on one aspect of this problem – the introduction of a modern entrepreneurial and managerial culture. We found that this process has been severely hampered because the main influences, i.e., changes induced by the business environment, the national cultural tradition and the example of imported business practices, have been constrained by the deficiencies of the institutional component of the marketisation process. If changes in ownership are the substance of marketisation, the development of market behaviour and culture determines its form. The current business environment has been able so far to generate only very ambiguous signals as far as ethical and moral requirements for entrepreneurs are concerned. Similarly, inadequacy in the economic sphere affects the efficacy of two other sources of cultural influences. Under these circumstances the sprout of new cultural patterns in business relations is unlikely to be either fast or smooth.

A noticeable variance between national and international entrepreneurial culture is to remain a challenge to foreign firms doing business in Russia. This will also be a deterrent to the process of Russian marketisation in general. The culture of the economically dominant class eventually becomes the dominant culture of the society. Distortions in the cultural values and orientation of Russian entrepreneurs are the result of the chaotic nature of transition but, as soon as they crystallise, they become a factor that contributes to this chaos and prolongs its existence. There is no doubt that the shortcoming of informal rules may be overcome through reinforcing a formal institutional base, the process over which the society has considerable power. It is also quite evident that in Russian conditions this will not be an easy task.

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