

EDITED BY ROBERT A. CRANE

# THE INFLUENCE OF BUSINESS CULTURES IN EUROPE

An Exploration of Central,  
Eastern, and Northern Economies



# The Influence of Business Cultures in Europe

Robert A. Crane  
Editor

# The Influence of Business Cultures in Europe

An Exploration of Central, Eastern,  
and Northern Economies

palgrave  
macmillan

*Editor*

Robert A. Crane  
Estonian Business School  
Tallinn, Estonia

ISBN 978-1-137-50927-7      ISBN 978-1-137-50929-1 (eBook)  
<https://doi.org/10.1057/978-1-137-50929-1>

Library of Congress Control Number: 2017950704

© The Editor(s) (if applicable) and The Author(s) 2018

The author(s) has/have asserted their right(s) to be identified as the author(s) of this work in accordance with the Copyright, Designs and Patents Act 1988.

This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature  
The registered company is Macmillan Publishers Ltd.

The registered company address is: The Campus, 4 Crinan Street, London, N1 9XW, United Kingdom

# Contents

<b>Scandinavia: Europe's Advanced North</b>	1
<i>Jette Schramm-Nielsen</i>	
<b>Transformation in Society and Changes in Estonian Management and Business Thinking</b>	41
<i>Ruth Alas and Tiit Elenurm</i>	
<b>Management in Germany, the Dynamo of Europe</b>	69
<i>Arndt Sorge</i>	
<b>Ukraine: Between Russia and the EU</b>	115
<i>Oleksii Polegkyi</i>	
<b>Russia: Europe in Asia</b>	137
<i>Jérôme Dumetz and Anna Vichniakova</i>	
<b>Czech Republic: At the center of Europe</b>	197
<i>Ludmila Štěrbová and Jérôme Dumetz</i>	

<b>Conclusions</b>	217
<b>Index</b>	219

# Editor and Contributors

## About the Editor

**Robert A. Crane** is Former Dean of the International Management Center (now the Business School of Central European University) in Budapest, former Director of International Affairs at AACSB and former Associate Director of Executive Programs at the J.L. Kellogg School of Management near Chicago. He is now semi-retired and continues to teach cross-cultural issues in Europe and Asia, publish books on cross-cultural management, and speak internationally.

## Contributors

**Ruth Alas** is Head of The Department of Management at Estonian Business School. Her research is about change and crisis management, leadership, values, and corporate social responsibility. She was awarded with CEEMAN Champions' Award 2011 for Academic Research on the topic: How to prevent Crisis by means of Organisational Change Management.

**Jérôme Dumetz** is a specialist of cross-cultural management with a strong focus on Eastern Europe. He has extensive experience as a cross-cultural researcher of Eastern Europe management practices, in particular Russia and the Czech Republic. He is a seasoned visiting lecturer at the University of Economics in Prague.

**Tiit Elenurm** is Head of the Entrepreneurship Department at the Estonian Business School. His research focus is innovative entrepreneurship, knowledge management, and cross-border business opportunities. He is member of the Estonian Network of Business Angels and the Estonian Association of Management Consultants.

**Oleksii Polegkyi** is a research fellow at the Graduate Institute of Russian Studies, National Chengchi University, Taiwan as well as member of Political Communication Research Unit at the University of Antwerp, Belgium. He was a visiting fellow at the Institute of Advanced Studies Kőszeg (iASK), Hungary in 2016 and took part in Taiwan Fellowship program in 2017. He earned his Ph.D. in political Sciences from the University of Wrocław, Poland and the University of Antwerp, Belgium. He received an M.A. in Philosophy from the T. Shevchenko National University of Kyiv, Ukraine and was a recipient of the L. Kirkland Fellowship Program, Erste Foundation, and Open Society Foundation Fellowships.

**Jette Schramm-Nielsen** is Professor emerita and Ph.D. from Copenhagen Business School, Denmark, in comparative/cross-cultural management. She spent more than 25 years in teaching and research in the field. Born in Denmark, she has lived and worked in a number of countries in Europe and the Middle-East. She is fluent in Danish, English and French and is familiar with Norwegian and Swedish. She has published extensively in international journals in English and French on topics within the field of cross-cultural management. After retirement she has done two field studies: one in Iran, and one in Turkey, both from a Scandinavian perspective. They were documented in the publications *Management in Iran* (2005), and *Doing Business in Turkey* (2011).



**Arndt Sorge** was François Sellier Professor of International Management, University of Groningen, and a director at the Social Science Research Centre Berlin. He is now an honorary professor at the University of Potsdam. His work involved international comparisons, and he has held positions in the Netherlands, Germany, Britain and France.

**Ludmila Štěrbová** is Associate Professor in the Faculty of International Relations of the University of Economics, Prague. She teaches International Trade at universities in the USA, China, Taiwan, France, Germany, and Austria. Before joining the University, she represented the Czech Republic as a diplomat at various international organizations in Geneva and worked for the Czech government.

**Anna Vichniakova** is a professor of Economic History at the Plekhanov University in Moscow. She is specialist of the economic development of Russia in the nineteenth century.

# List of Figures

## **Transformation in Society and Changes in Estonian Management and Business Thinking**

Fig. 1 Estonian GDP per capita, PPP (current international \$) 50

## **Russia: Europe in Asia**

Fig. 1 Western part of Russia 140

Fig. 2 Maps of Russia and its neighbors 157

Fig. 3 Maps of Russian main cities and rivers 157

Fig. 4 Russian “Subjects” 159

Fig. 5 Russian GDP 1989–2015 164

Fig. 6 Crude oil price evolution 1995–2017 165

## **Czech Republic: At the center of Europe**

Fig. 1 Czech Republic in Central Europe 198

# List of Tables

## **Scandinavia: Europe's Advanced North**

Table 1	Corruption Perception Index (CPI)	8
Table 2	National level of trust	9

## **Transformation in Society and Changes in Estonian Management and Business Thinking**

Table 1	Institutionalization in Estonian history	42
---------	--	----

# Introduction

The Current State of Europe as we see it.

“Europe is back!” I wish, I could announce such buoyant news. However, in fact, Europe is undergoing a particularly difficult period. Economically, Europe is still struggling with the aftermath of the 2008, subprime crisis and the counterproductive remedy of austerity applied in the Eurozone thereafter. Politically, the European Union is facing the schismatic trauma of Brexit—the exit of Great Britain from the EU. Although not yet consummated as I write, this divorce would wrench most of the British Isles away from the Continent.

Thus, we, the authors, have attempted to paint a portrait of the central and eastern parts of the largest single market in the world and the greatest democratic force on the planet after the resignation of the United States with the election of Donald Trump. We have tried to depict a Continent on which the center of gravity has shifted significantly eastward with Germany now the dominant economic and political power. Despite its flirtation with the far right, Poland has also emerged as a significant economic power and increasingly as a military bulwark against the overt and covert attacks by Russia on Europe. A victim of these Russian attacks, Ukraine, is literally fighting to stay on

its feet, fighting both a proxy war with Russia and the second war with its own indigenous corruption.

Russia itself sows trouble and discord both in Europe and worldwide through its campaigns of subversion and “fake news”. Moreover, while heavily armed, Russia has lost much of its economic potency due to fluctuating oil and gas prices, a sinking ruble, and the sanctions imposed by the US and—more importantly—by the EU. Finally, in the east, the Czech Republic is also tempted by the siren voices of Moscow. While still loyal to Europe, Prague also feels the sway of Russia. Little Estonia, on the other hand, is a staunch adversary of Russia which crouches literally on its eastern borders. Having suffered Russian (and other) occupation multiple times, Estonia has opted for EU and NATO membership, firmly casting its lot with the West. Economically, Estonia has chosen the path of cutting edge high technology—a choice which thus far has paid off handsomely.

However, there are also bright signs that Europe is standing up to the waves of populism/Fascism which have submerged the UK and the US. Three successive elections in Austria, the Netherlands, and France in 2017 highlighted Europe’s resistance to these retrograde forces. France, in particular, took a strong pro-European Union stance with the May 2017 election of Emmanuel Macron as president. So, the next pages in the saga of Europe will be around Western Europe. With Brexit and the reinforcement of the EU through the Macron presidency as well as ongoing Russian interference in democratic processes around Europe and the world, Western Europe will again be the focus of attention in a few years.

But today, that focus is still on Central and Eastern Europe. Anchored firmly in Central Europe, Germany is still the economic and political heavyweight of the European Union. When an important decision is to be made, all eyes in the EU turn to Berlin and Angela Merkel. Just the other side of the Baltic Sea, Norway, Sweden, and Denmark have vibrant economies which closely follow, without rivaling it, that of Germany. As mentioned, a former Soviet entity, little Estonia in the nearby Baltic States has stoked its economy through high tech innovation and has also built a thriving democracy. Estonia is also a bastion of the West on Russia’s doorstep with its membership in NATO (North Atlantic Treaty Organization), the European Union, and the Euro zone. Russia takes a

dim view of the Estonian approach and has become increasingly bellicose and a renewed threat to the rest of Europe. Finally, the Viségrad group of four nations on the eastern edge of the European Union has begun flouting not only the rules of the EU, but also the very foundations of democracy. Our chapter on the Czech Republic addresses this issue.

This then is Europe as we perceive it: an old continent hobbled by its traditions and demons and by the slowest growth rate among the major world regions. The challenges are many and imminent. To describe Central and Eastern Europe, we have structured our chapters generally around three poles.

In our approach to Central and Eastern Europe, each country chapter contains three parts. The first part deals with the major cultural—not political—events which defined the national character. Given that these events are culturally important, they often harken back to the very origins of the nation. For example, the “Rus” founded by the Vikings in Kiev in what is modern Ukraine became the cultural foundation of Russia. Thus, one better understands the current Russian attachment to and interference in Ukraine.

The second part of each chapter examines the impact of these cultural values on the way of thinking in the modern nations of Central and Eastern Europe. To take the example of Russia again, the equation of land with power in that country’s culture has led to a long-term tendency toward expansionism, as exemplified by the seizing of Crimea in 2014.

Finally, the third part of each chapter is dedicated to the business impact of culture in the countries examined. How does culture influence the way business is done and people are managed in these countries? What is perceived as leadership in both the business and political contexts? Good management or leadership in one country can be completely counterproductive in another.

In sum, we have attempted to provide the cultural keys for business understanding and success in the countries of Central and Eastern Europe.

Paris, France  
May 2017

Robert A. Crane, Ph.D.

# Scandinavia: Europe's Advanced North

Jette Schramm-Nielsen Ph.D

## Introduction

Scandinavia is an interesting region to study. It is among the richest regions of the world. It is a good example of politically and economically stable democracy. It has come through the recent economic crisis with much less damage in terms of unemployment and poverty than most of the European countries. It is therefore considered a safe haven for foreign investment. Scandinavians are experts in modernity. The Scandinavian countries are in general marked by fairness, egalitarianism, and moderation. How did this region become such a success story? This is what we aim to describe in the following chapter.

---

J. Schramm-Nielsen (✉)

Professor emerita, Ph.D, Copenhagen Business School, Denmark

e-mail: info@smec.dk

© The Author(s) 2018

R.A. Crane (ed.), *The Influence of Business Cultures in Europe*,

[https://doi.org/10.1057/978-1-137-50929-1\\_1](https://doi.org/10.1057/978-1-137-50929-1_1)

## Part I: The Context

The three main Scandinavian countries, Norway, Sweden, and Denmark, have been nation-like entities for at least a thousand years. They can look back on at least a millennium of historical bonds, changing coalitions, and unions, although this shared history has not been devoid of conflict and war.

The geography of the three countries is very different, as they are in size, in geology and in natural resources. *Norway* is rich in oil, hydroelectric power, fish, timber, and some minerals. *Sweden* is rich in minerals, hydroelectric power and timber, whereas *Denmark's* only raw material—until relatively recently—was its soil and fish.

## Geography

### Norway

Norway occupies the western half of the Scandinavian Peninsula. Two-thirds of Norway's approximately 300,000 square kilometers is mountainous. Off its much-indented coastline, carved by deep glacial fjords, lie some 50,000 islands. The country has been inhabited for about 6000 years, since the first Indo-Europeans settled along the coast, establishing a permanent settlement near the present capital of Oslo. The interior was more sparsely settled, owing to extremes of climate and difficult terrain. Even today, the country's population of about 5 million is concentrated in the coastal areas and in the south, especially around the Oslo fjord, where we find about one-fifth of the population. In fact, as much as 81% of Norway is completely uninhabited, which gives a population density of 15 inhabitants per square km.

Communication by road is very complicated, as the roads are narrow, winding along fjords and sinuously over mountains. Fjords are crossed by boat or through numerous tunnels that are also carved through mountains, but in spite of the long distances and rough terrain, the roads are extremely well built and well maintained. The train service is also complicated, with low standard speed and double tracks on



only a few stretches. On the other hand, the bus service is dense, and an extensive network of ferries and a well-functioning air service between modern airports help overcome the difficulties. This is a country where an ambulance may well come in the shape of a helicopter.

## Sweden

Sweden is the largest of our three countries, in area (about 450,000 square km) as well as in population—10 million inhabitants in 2017. Part of the Scandinavian peninsula, it stretches some 1600 km from north to south and about 500 km across. This vast area is sparsely populated (23 inhabitants per square km), especially in the northern half, which accounts for only 10% of the population. In fact, as much as 70% of Sweden is completely uninhabited. Thus, the population is concentrated in the southern part, the relatively low lands of Svealand and Götaland, around the major cities of Stockholm, Göteborg, Malmö, and Uppsala. Along the Norwegian border, we find high mountains covering about 25% of the country. More than half of the country is covered with coniferous forests, another 10% with lakes, leaving only about 7% of the area for agricultural purposes. As concerns natural resources, Sweden is rich in wood, hydroelectric power, and a number of minerals such as iron, copper, lead, zinc, and silver. These resources were exploited in Sweden's early industrialization, forming the basis of the manufacturing industries which were long Sweden's strength par excellence.

## Denmark

Denmark is the smallest of our three countries, just 43,000 square km—about the same size as Switzerland—ten times smaller than Sweden. However, Denmark is more evenly inhabited in the sense of not having large uninhabited areas like Sweden and Norway. With 5.7 million people (in 2017), the population density is 132 persons per square km. The kingdom of Denmark also includes Greenland (about 56,000 inhabitants) and the Faeroe Islands (about 50,000 inhabitants), both are in the North Atlantic Ocean and both enjoy home rule.

The country is composed of the peninsula of Jutland attached to Northern Germany by a border of just 67 km and some 400 islands, of which the largest are Zeeland (Sjælland) and Funen (Fyn). Distances are small; no point is more than 50 km from a coast. The entire country is lowlands. Since the climate is temperate, with mild winters for its latitude and cool summers, Denmark offers excellent opportunities for agriculture, which was indeed for centuries the only natural resource available, apart from fish. Today, about 66% of the land is exploited for farming, 12% is covered with forest, and another 10% is meadows, lakes, and dunes.

The many fjords and bays along the coasts offer excellent opportunities for harbors. Such places were natural sites for early settlements, which go back to around 12,500 BC. Agriculture developed from around 4000 BC. Agriculture still constitutes an important part of the Danish economy in terms of exports (about 10%) and as part of the self-image/national identity of the Danes, although nowadays it occupies only a low percentage of the population.

## A Country Cluster

In spite of all the aforementioned differences in geography and natural resources, it is nonetheless meaningful to speak of these countries as forming a country cluster, since they exhibit many similarities in civic values and management style and practice. In fact, it has been shown that there is such a phenomenon as Scandinavian management (Schramm-Nielsen et al. 2004) as we will show in the following.

A country cluster theory based on the attitudinal variables was first formulated in the early days of research on cross cultural management by Haire et al. (1966). Their theory of clusters of similar countries went against the accepted wisdom of the time, which was that of trust in universal management methods and standards. The 1970s saw a number of country cluster studies, but they did not attract much attention at the time. It was only when Hofstede started publishing his results from the comprehensive IBM study in 1976, and especially in his 1980 book on work-related values, that the business research community and managers alike were shaken in their conviction about management universals,

a thesis that Hofstede elaborated and enlarged in a later book (2001). Hofstede's work was as path-breaking as the Haire et al. study.

The homogeneity thesis takes as its starting point the fact that these three countries represent a number of core values on different levels of analysis: at the societal level, where we find institutions with similar basic philosophical and ethical attitudes; at the level of the labor market; and not least at the organizational level and the level of people management. We will revert to this analysis in more detail at a later stage.

Today Scandinavia as a region can be characterized as one of the richest and most advanced areas in the world in terms of development and use of technology. Also, these countries have done away with the flagrant inequalities that we find in many other countries, and have developed a management style which is extraordinarily participative and process-oriented without losing the battle for efficiency. How is it that these 20 million people out of a world population of an estimated 7400 million are consistently at the top of almost all international statistics? This is the question that we aim to answer in the following text by looking at religion, history, and state-building.

To sum up, on the theory of a country cluster we would say that *Scandinavia is made up of three inseparable nations separated by a common language*. This seeming nonsense makes good sense to Scandinavians, who nurture a vague feeling of togetherness and commonality.

## Languages

The Scandinavian languages (Danish, Norwegian, and Swedish) are part of the larger group of Nordic languages, including also Icelandic and Faeroese, all part of the Germanic family of languages. Originally, up until around AD 1200, the present Nordic languages were considered one common language. However, during the Viking age (AD 800–1100) divergence started that eventually led to the present individual languages. The Scandinavian languages are still similar to a certain extent, especially Danish and Norwegian, but are not always immediately comprehensible among the Scandinavians themselves without some training and exposure.

## Communalities

### Religion

The Scandinavian people share Protestantism of the Lutheran-Evangelical branch as an ethical and moral foundation. Scandinavians do not demonstrate their religious adherence by frequent church attendance, and faith is considered a private matter that one would not ask about in ordinary conversation. Rather religious adherence points to a deeper level of shared philosophical worldviews, today often referred to as 'cultural Christianity'.

The Lutheran upheaval against the Catholic Church and the Pope in the 1500s meant an important change in the roles of the church and the state in as much as the church became part of the state and no longer an institution above the state. This meant that the state was given a new role and new responsibility. The reason why Scandinavians today pay more and cheat less in terms of taxes than in other countries is part of the heritage of the Reformation, when the state took over a number of tasks in relation to the citizen that had hitherto been handled by the Church, such as education, poor relief, and health care. This is undoubtedly the explanation for the positive view by the Scandinavians of the state. By and large, they trust the state, and think that it is not correct to milk the state for allowances that one does not deserve. The opposite tendency, from the Scandinavian viewpoint, is to be found in Southern European countries where apparently nobody believes in the state, and where the state is seen as an enemy that is to be exploited to the best of one's ability. The Scandinavians believe that solutions to problems should be found within the framework of the state for the benefit of everyone.

From the Reformation on, the Church became part of the state and invisible apart from the church buildings. Only very recently have the Swedes separated the church from the state again. However, the state has retained the strong position that it has held since the Reformation. The issue of the administrative separation of state and church is also being discussed in the other two Scandinavian countries, probably as one of the results of the mass immigration of people from the Muslim world.

The Reformation was enacted in Scandinavia in a quiet and peaceful way. There was no civil war over the question, but the consequences of this revolution have been great in all spheres of society. The key issue became *trust*, at the outset in the King, and when royalty lost power, in the state.

The fact that Canon law no longer had any authority meant that civil law and the understanding of right and wrong were now based solely on the 10 Commandments. They represented the very essence of Christian moral law. Since the Reformation, few have contested the authority of the state and its institutions, such as the systems of justice, police, administration, and government.

As already mentioned, when it comes to church attendance in the Scandinavian countries it is not just low, it is extremely low. Except for family celebrations, such as weddings, funerals, and baptisms it would be more correct to say that churches are practically empty. On the other hand, when you ask people about their ethical views, it is clear that cultural Christianity has a firm grip on people's mind-sets through attitudes, such as egalitarianism, interpersonal respect, and interpersonal trust.

## Corruption

According to Transparency International (2016), the definition of corruption is: "the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs."

Transparency International is an independent organization started in 1993. Based in Berlin, its vision is a world in which government, business, civil society, and the daily lives of people are free of corruption. Since 1995, Transparency International has published a Corruption Perception Index (CPI) each year, now ranking 176 countries on a scale from 0 (perceived to be highly corrupt) to 100 (very clean). No region or country in the world is immune to the damages of corruption. Over two-thirds of the 176 countries and territories in the 2016 index fall below the midpoint of the scale, the global average score being 43, indicating endemic corruption in a country's public sector.

**Table 1** Corruption Perception Index (CPI)

	Rank	Score
Denmark	1	90
Sweden	4	88
Norway	6	85

In 2016, the scores of our countries of interest are as follows (Table 1):

Denmark and New Zealand share the top position as number 1, and Denmark has held this position for five years in a row. Over the years, all three countries have consistently been among the top ten countries. To give an example: in these countries, public servants are not allowed to receive gifts from private parties, not even disguised as part of a competition. Gifts, such as an iPhones, dinners at expensive restaurants, or tickets for important sports events—not to mention journeys abroad—will be considered above the limits. Public servants may receive only very modest presents in connection with a jubilee or the like. Abuse of public means is tantamount to scandal in Scandinavia, and the consequences may be catastrophic to those involved. Every single case will be made public by the media.

## Confidence

Confidence in public institutions, i.e., the political system, the legal system, and the police, is an aspect of a country's social capital. It is the condition and the expression of the stability of the institutions and of the proper functioning of society and the economy. Thus, stable institutions worthy of confidence are essential to the quality of life of a population and its feeling of well-being (OFS, SILC 2016). It is also essential for economic development and—not least—there is a clear correlation between corruption and confidence in public institutions, the more corruption the less confidence in public institutions.

As we have seen under the section about religion, Scandinavians have had a positive view of the state since the Reformation, because the state took over certain responsibilities that had hitherto been taken care of

**Table 2** National level of trust

Country	Score
Denmark	80
Norway	75
Sweden	70
Great Britain	40
United States	30
France	25
World average	30

by the Church. Over the last half century, the Scandinavians have built societies in which the authorities and public institutions can be trusted to work for the citizens. The general attitude is that the state and the institutions are there to serve the citizens, not the other way round.

Recent research (Sønderskov and Dinesen 2014) has shown that the Scandinavian countries score extremely high when it comes to social trust. The level of trust is the share of the population believing that 'most people can be trusted'. By comparison, the Scandinavian scores are in sharp contrast to other Western countries, such as Great Britain, France, and the United States. The respective scores are as shown (Table 2).

It is worth mentioning that the Scandinavian scores have constantly increased over the past three decades, whereas the scores of the other countries listed decreased during the same period except, lately, France.

Thus, Scandinavians have great confidence not only in public institutions but are also extremely trusting when it comes to interpersonal relations. To give an example, in the Danish countryside you often see little sheds or just tables that are not manned, where private people sell home grown fruit and vegetables with just an open box for payment and change. At the end of the day, the proprietor will fetch the box with its income. It works wonders, to the satisfaction of all parties. This author is one of those benefitting from fresh eggs and vegetables from wayside stalls. In many other countries, not only the money but also the products would have disappeared.

Interpersonal trust is an asset to the smooth functioning of society in general and to business in particular, since it means that less time

and effort is used on control, time that can be concentrated on being productive. In many other regions, like the Middle East, people do not trust strangers. They trust only family members, good, proven friends, and well-known business relations. Consequently, personal networks are extremely important, and much time is spent on nurturing these networks.

The negative side to the trusting Scandinavians is that they may appear credulous and even naïve when they interact with less trusting people abroad. We have unfortunately seen quite a number of such cases not only in private life but also in business, not least in big business.

## **From Autocracy to Participation**

The Scandinavian countries are societies with strong democratic values and strong democratic institutions. Of course, they have not always been like that. As will appear from the following section, autocratic tendencies were present up to the period after the Second World War, when the modernization process, in the modern meaning of the word, took off. Through continuous reforms, debates, and gradual changes the countries have developed their egalitarian and participative style in political, economic, and social life. Thus, democratization has been a slow, step-by-step process. Over the years, social life has not been without clashes among interest groups, for instance, on the labor market, but no abrupt changes, no revolutions, and in recent history, no civil wars have occurred (Fivelsdal and Schramm-Nielsen 1993).

## **History and State Building**

### **Denmark**

The earliest records of a Danish kingdom go back to around AD 700, when a rampart was built along the southern border from the Baltic to the North Sea to protect the country from military aggression from the



south. This great building project indicates some kind of central authority, the existence of a state at that early period. From around AD 800, the Frankish annals describe campaigns against Danish kings. Thus, Denmark has been a kingdom for more than a thousand years.

What is called the 'Danish birth certificate,' however, dates from about AD 940. It is a huge stone with a runic inscription erected by King Harold Bluetooth in commemoration of his parents which, at the same time, proclaims the unification of all Denmark, the conquest of Norway and the Christianization of the Danes. This was in the mid-Viking era, when the Vikings from all of Scandinavia went marauding, trading, and colonizing neighboring shores. In East Anglia, Harold's son Sweyn and grandson Canute the Great set up an Anglo-Danish kingdom, the Danelaw, that is the area where Danish law prevailed. This kingdom ended in 1042 with the death of the Danish king.

The Kalmar Union of Norway, Sweden, and Denmark (1397–1523) began with Margarethe I (1353–1412), who served as regent of both Denmark and Norway during her son's childhood. However, he died at the age of 17 in 1387 and she was then acknowledged as regent of the two countries. In 1388, rebellious Swedish nobles hailed her as regent of Sweden as well. The Kalmar Union also included the Shetland, Orkney, and Faroe Islands, Iceland, Greenland, and Finland (that came with Sweden). Later, the province of Holstein in northern Germany joined. Since Margarethe was childless, her sister's grandson, Eric of Pomerania, was crowned king of Denmark, Norway, and Sweden at Kalmar. After a troubled period, marked by wars between Denmark and Sweden, the union was finally dissolved in 1523. This was the first experience of coordinated efforts among the three countries, but the time was not yet ripe for continuous development along these lines. On the contrary, the period from 1560 to 1720 saw the increasing rivalry between Sweden and Denmark over the hegemony in the Baltic Sea area, leading to no less than six wars between them. From the outset, Denmark was the greater power, being the richer of the two and having a powerful fleet, but as the conflicts continued, Denmark gradually lost territory after territory, especially when the Danish king Christian IV (1588–1648) meddled in the Thirty Years War (1618–1648) in Europe with no success at all. At a certain point, Denmark was even on the brink of extinction, when in

1658 one of the powerful Swedish warrior kings, Carl X Gustav, marched his army from Poland through Germany up into Jutland and had the incredible luck of being able to cross the straits and belts of Denmark, thanks to an extraordinarily cold winter that covered the sea with ice thick enough to carry soldiers and their equipment. It was due only to the resistance of the citizens and foreign support that Copenhagen was saved from the invading troops. However, the price of peace was the loss of all the provinces of southern Sweden, which diminished the country by one-third and the population from 800,000 to 600,000.

Another result of this catastrophe was that the power of the Danish nobility was irreversibly broken, because they had not lived up to their obligation as military defenders of the realm. Instead, a coalition between the bourgeoisie, the clergy, and the king, in a bloodless *coup d'état*, installed a hereditary absolute monarchy, which was to last from 1660 to 1849, when Denmark had its first democratic constitution. It is worth mentioning that both of these turning points were implemented peacefully.

Paradoxically, the one person who was most to be blamed for the fall of Denmark from its position as a great power, King Christian IV (1588–1648), is now regarded as one of the greatest rulers in the long succession of kings of Denmark. The first part of Christian's 60-year-long reign was in every respect a success. He was a typical renaissance monarch who did not only see war as his profession, but who also promoted the fine arts, bringing musicians, painters, goldsmiths, and architects to the country. A diligent builder/entrepreneur, he left many beautiful buildings in Copenhagen, such as the Rosenborg Castle, the Stock Exchange, the Church of the Navy, the Armoury and so on, as well as Kronborg Castle in Elsinore (Helsingør) and Frederiksborg Castle in Hillerød, both in North Zealand. He founded the city of Christiania, now Oslo, Kristiansand, also in Norway, and Kristianstad, which is now in Sweden, and left his imprint on innumerable churches and other buildings, industries, and institutions. He established trading companies and acquired overseas possessions. In sum, he was a brilliant entrepreneur, a colorful person, and a poor politician.

During the next period, Denmark tried in vain to regain the lost territories in Scania, southern Sweden, most of the time assisted by the Scanians themselves, until the case was finally closed with the peace

treaty of 1720. Since then, the two neighbors have maintained entirely peaceful relations with one another, even developing into close cooperation with the establishment of the Nordic Council in 1952.

The next catastrophe to hit Denmark was in connection with the Napoleonic wars, when Denmark, due to intricate international circumstances, joined the losing side. In fact, Denmark tried to stay neutral, but England feared that the strong Danish navy could be used against it by the continental powers, and attacked Copenhagen twice, in 1801 and in 1807, the first time destroying most of the fleet and the second time bombarding Copenhagen with fire bombs and sailing away with what was left of the navy.

Not only did this mean the end of Denmark as a great sea power and an international financial and administrative centre, but the Napoleonic Wars also meant the loss of Norway. The state went bankrupt in 1813 and over the next few decades, Denmark was in deep economic crisis. However, it also galvanized the national spirit and set off slow but steady economic development from around 1830 that only decreased during the depression of the 1930s.

What triggered this development was, in fact, important structural land reforms initiated by a small group of enlightened landed aristocracy toward the close of the eighteenth century. Until the end of the Second World War, the Danish population was essentially agrarian, the majority of the population living from farming. Toward the end of the eighteenth century, Denmark still had a communal open-field system. Most individual landholders were tenant farmers, whose farm buildings and land belonged to the local manor house, and part of the rent was paid in labor on the landlord's domain. The farms were clustered in groups of 5–20 in villages, and the scattered plots of land were located in each of two or three large fields, which were farmed collectively. Therefore, it was essential that villagers agreed on the timing of ploughing, harrowing, planting, and harvesting. Meeting at a central place in the village, family heads discussed common problems of field management and agreed on mutual responsibilities and cooperation. Each family enjoyed the harvest from its own plots, but also worked with the others to manage the fields. They shared resources and the livestock was grazed as a single village herd. Shared decisions were also made on the use of communal facilities,

such as the meadow, commons, village square, pond, and church. Thus Danish peasants cooperated in much of what they did strengthening the communal spirit, but productivity was very low.

With the great land reforms, the system changed. The open-field system was replaced by the consolidation of fields into larger individual holdings, and new farmsteads were built in the midst of the area now belonging to each individual farmer, who had been financially aided to purchase the farms. Indeed, 60% of Danish peasants became landowners. At the same time technological improvements, such as the light-weight plow that could be pulled by a single horse, made the individual farm run by one family possible. The agrarian economy now shifted from subsistence to commercial farming. At the same time, *the 1814 school act made school attendance compulsory for all children between ages 7 and 14.*

Denmark was actually the first country in the world to introduce compulsory schooling for all children, boys and girls alike. The country has pursued this policy of education ever since with increasingly more education for all classes of society. The Danish land reforms and school reforms are probably the only example of a successful feat of enlightened European despotism. The result was that a poor and ignorant peasantry was slowly but steadily developing into a class of wealthy independent farmers.

Each individual farmer did neither have the capital nor the capacity for large-scale production, and certainly not for organizing exports. The answer was to organize in cooperatives, in which the farmers invested small amounts of money for shares, delivered their production, and received proportional parts of the overall profits. This development created a whole new class of consolidated, independent, and self-confident farmers who also grew in political awareness. The farmers' liberal party 'Venstre' took over government responsibilities in 1901, and parliamentary government was finally established.

Another important movement was created during the same period, from around the 1870s, that of the folk high-schools. The inspiration came from one of the monumental figures in Danish cultural and religious life, the churchman, poet, author, and educator N.S.F. Grundtvig (1783–1872). 'Grundtvigianism' designates a revitalization movement that inspired a new sense of Christian awareness in nineteenth-century

Denmark and Norway. The folk high-schools were established to further educate especially the daughters and sons of the independent farmers and not least to prepare them to take part in a democratic society. Based on the Christian beliefs and peasant culture, the schools taught history and literature alongside a number of practical skills, particularly the newest techniques and improvements in agriculture and housekeeping.

Grundtvigianism made a profound imprint on values and attitudes in Denmark and to a large extent also in Norway, where he was very popular. In religious matters, Grundtvig stood for a joyous Christian life on earth in opposition to stern Pietism. In innumerable hymns, he praised God's creations, the happy, joyous, modest life, and the Danish mild and smiling landscape. In pedagogical matters, he perceived the main enemy as classic Latin culture with its drill, rigorous discipline, and abstract learning. Instead of just imparting knowledge, he thought that education should inspire personal, national, and Christian endeavor. To Grundtvig, the spoken word, not the book, was the best means of education. He was convinced of the paramount importance of dialogue. In Church matters as well as in education Grundtvig played an enormous role in the struggle against authoritarian ways of life, and in both fields he pleaded for freedom, democracy, and dialogue.

## Norway

Norway is exceptional among the Scandinavian countries in having been an independent state only for short periods of time from around 1000 till 1320 and again after 1905. After a period of decline, the country formed a union with Sweden from 1320 for the next 60 years, when it entered into a union with Denmark which lasted for more than 400 years, until 1814. At this point, Denmark and Norway were separated, and Norway was given to Sweden as a result of Denmark's having joined the losing side in the Napoleonic Wars. During the more than 400 years of union with Denmark, the so-called twin-monarchy, Norway kept its own laws but was administered by Denmark. Most of the civil servants in Norway were Danes. This situation inevitably made the written administrative language Danish, influencing also the

spoken language. When finally Norway became independent in 1905, a nationalistic movement wanted to do away with the still Danish-inspired influence in administrative language and introduce a genuinely Norwegian tongue. The result was that from 1929 Norway has had two official tongues: *bokmål* (book language) which is commonly spoken and *Nynorsk* (New Norwegian) used by about 10% of the population.

In reaction to 'being given away' by the winning side at the end of the Napoleonic Wars, the demand for independence grew rapidly. That same year, an assembly was called that formulated a constitution which at that time was very liberal and democratic. Parliamentarism was introduced in 1814. Ever since then the date of 17 May is celebrated as Independence Day in Norway. The Danish prince Christian Frederik, who was also heir to the Danish throne, was chosen as king of Norway. This step would obviously in time have led to yet another union with Denmark. This development, however, was opposed by Sweden which threatened to use military force, and instead, Norway was forced into union with Sweden. However, only minor modifications were made to Norway's new constitution that was more democratic than the Swedish one at the time.

Towards the end of the century, not least inspired by poets such as Henrik Wergeland (1808–1845) and Bjørnstjerne Bjørnson (1832–1910), the grassroot movement demanding independence and reforms had grown into a strong political movement, and in the summer of 1905 the Norwegian Parliament unanimously declared the union with Sweden dissolved. After a full military Swedish mobilization, and on the brink of war, the Swedish king gave in and Norway's independent status took effect from September that same year after being approved by the Norwegian people in a referendum.

Again a Danish prince, Carl, brother to the later Christian X of Denmark, was chosen as King of Norway under the name Haakon VII.

The struggle for independence and for the emergence of an unmistakably national cultural identity, boosted by pride in the successes of polar explorers Fridtjof Nansen (1861–1930) and Roald Amundsen (1872–1928), undoubtedly played an important role in the Norwegians' rejection of becoming a member of the EU, the word 'union' having a decidedly negative connotation to Norwegians.

During the First World War, Norway was neutral, whereas the Norwegians fought bravely against the Nazi Occupation during the Second World War. After a short military resistance, the king and the government went into exile in London in World War II. Like Denmark, the country was occupied from April 1940 to May 1945.

In religion, the Norwegians followed the development of Northern Europe, being Catholics from the Christianization of Scandinavia at the end of the Viking period around 1050, and then Lutherans from the time of the Reformation in 1536, during the twin-monarchy period. As in Denmark, there was a religious revival in the late eighteenth through to the nineteenth centuries, a revival which was especially strong along the western and southern coasts where the population had to face a rough climate and the dangers from the sea, living mostly from fishing, whaling, and sea transportation. This area is still strongly marked by the Protestant work ethic, the rugged islands and the fjords bustling with activity. The stern religious movement of Inner Mission, a contemporary evangelical expression of Pietism, and other religious communities was somewhat mitigated by the Danish religious leader, historian and author Grundtvig, who advocated a worldly, joyous, and happy life on Earth in opposition to the pietist movement of the late eighteenth and early nineteenth centuries. Along with the pietist and puritan religious movements, a nonalcoholic movement developed, which is still rather strong, influencing the restrictive policy of Parliament on alcohol consumption.

## Sweden

Sweden has been inhabited for at least 10,000 years and was subject to a unitary government for about 1000 years, but its territorial area changed often until 1809. During the period from 1397 to 1523, known as the Kalmar Union, when Norway, Sweden, and Denmark were unified under an elected Danish regent, each country had its own set of laws. The Kalmar Union was largely a defensive union directed toward the Hanseatic League and the north German states. From the dissolution of the Kalmar Union, starting with Gustav I Vasa (1496–1560), the Swedes had a strong, centralized state that sought expansion

in the Baltic Sea area. During the period from 1611 to 1721, Sweden was undeniably the great power in the Baltic area, gradually gaining control over Finland, part of what is now Russia, Estonia, Latvia, Lithuania, and even parts of north Germany. All this came to an end in 1721 with the peace treaty after the so-called Great Nordic War against most of the other Northern European powers: Denmark, Poland-Saxony, and Russia (1709–1721). This war incidentally was also the last belligerent event between the two neighbors, Sweden, and Denmark. Thus, they will soon celebrate 300 years of uninterrupted peace.

During this period of expansion and wars, the central power started exploiting the rich iron deposits in the country. As a result, what could be more logical than to create an arms industry, an industry which is still very much alive, and which poses a paradox when one considers Sweden's present foreign policy based on the neutrality, non-alliance, peace seeking, and conflict solving efforts on the international scene.

Swedish society and administration were long marked by its military past with a top-down command structure and rigid rule orientation. Indicative of this tradition is the fact that after the Napoleonic Wars, the Swedes chose a French military marshal for king in 1818 under the name of Karl XIV Johan, the beginning of the Bernadotte dynasty. From 1809, however, the power of the king was gradually reduced and today King Carl XVI Gustav, who is a descendant of Marshal Bernadotte, has only symbolic power. Another feature that has marked Swedish society is that of the system of the Estates of the Realm, which was abolished in 1866, 77 years after the French Revolution that did away with the system in France. From a society governed by the Estates, the distance was short to a society governed by corporations, and this was for long a characteristic of modern Swedish society. The state and the big interest organizations representing employers, employees, agriculture, and industry still engage in effective cooperation (SOU 1990–1994), although the corporatist model has changed over the years. From this situation, we can trace the tendency toward compromise and consensus seeking, which is especially pronounced in Sweden and which also entails high confidence in the state and its institutions, a characteristic of all the Scandinavian countries in sharp contrast to many other European countries, especially France, Italy, and Greece just to mention a few examples.



An institution which is also indicative of the relationship between citizens and the state is the ombudsman, which is a Swedish invention, created as early as 1809–1810 as a development of a law dating back to 1776 which offered the general public some insight into the state administration. The ombudsman is a legislative commissioner, but the legislature may not interfere with his handling of particular cases. He is politically independent and his task is to verify the correctness of decisions made by public administrative bodies, civil as well as military. He may do so on his own initiative or at the request of any citizen (Schramm-Nielsen and Lawrence 1998). Sweden now has a number of ombudsmen in diverse areas such as the administration of justice, child-care, consumer affairs, and equal treatment. This institution has been copied by many other countries, making the word part of the international vocabulary.

Sweden is exceptional in the fact that its territory has not been seriously threatened by outside powers for the past almost 300 years. Indeed, the country has not suffered military occupation since 1523 by the Danes, has not been at war since 1814, and been at peace with its neighbors for almost 100 years, that is, since the conflict with Norway was finally solved in 1905. Sweden declared itself neutral during the two World Wars. Thus, Sweden has long ago disavowed military aggressiveness, and instead, it has chosen to play a balancing role among the world's conflicting ideological and political systems. Indicative of this attitude is the fact that one of the greatest Swedish industrialists, Alfred Nobel (1833–1896), who invented a method for large-scale production of nitroglycerine, dynamite, and explosives, dedicated a large fortune to a fund that distributes prizes to people that have 'done most good for mankind in the previous year', now in chemistry, physics, medicine and literature, and not least the Nobel peace prize. The last prize, incidentally, is distributed by the Norwegian parliament (Stortinget). For economics, the Bank of Sweden Prize is given in memory of Alfred Nobel.

The Swedish neutrality policy means that the country is not a member of the North Atlantic Treaty Organization (NATO). It does, however, take part in peace-seeking and peace-keeping operations in NATO, this being called 'partnership with NATO' and it is a member of the EU. Sweden only joined the EU in 1995, when it had become clear that

Sweden, with its small domestic market and dependence on exports, could no longer stay outside (Nedström 2000). This was a decisive step in the movement away from the neutrality policy. There is quite an amount of EU scepticism in all three Scandinavian countries, and adoption of the euro was turned down in referendums in Sweden as well as in Denmark.

At the time of this writing, the question of full membership in NATO is still being discussed in Sweden, not least in view of the recent developments in Russia's foreign and military policies.

## Industrialization

At the beginning of the twentieth century, the economy of the three countries slowly changed from mainly agrarian to a more industrial one, each country setting off from the basis of the previous century.

### Denmark

In **Denmark** the development of the cooperative movement had a number of beneficial effects:

- The cooperatives could demand standardized products of high quality;
- They could hire well-educated specialists to run the dairy or the slaughterhouse;
- They could invest in improved production facilities and machinery;
- They could arrange fast transportation and export; and
- Not least, the cooperatives were run by the farmers themselves, the managing board was elected from their own midst, and there were regular assemblies at which important decisions were put to the vote among all members.

The cooperative movement and the folk-high schools have had a major influence on the Danes' attitude toward participation in decision-making, on equalization and on the idea of discussions leading to compromises acceptable to the majority.

The technical improvements created the need for agricultural machinery and equipment and for a food-processing industry. Since the country had a century-old craft tradition with apprenticeship education, the basis was there for a large number of small industries, suppliers to agriculture, or buyers of agricultural products.

Right up to the middle of the 1900s, Denmark was still decidedly an agricultural country in terms of production, exports, and the derived light industry. Indeed, it was only in 1963 that the value of industrial exports surpassed those of agriculture, which is very late compared to most industrialized countries. Even today the food-processing industries, including fish products, play a significant role in areas, such as beer brewing (Carlsberg, Tuborg, and Faxe), sugar (Danisco), dairy products (Arla), and meat processing (Danish Crown).

In 1972, a new chapter in Danish economic life opened when the exploitation of the oil deposits in the North Sea started, until in 1981 it became a sole concession for the A.P. Møller Company. The fact that the concession was given to a private company is in sharp contrast to the normal strategy in Norway, where concessions were generally given to fully or partly state-owned Norwegian companies and multinationals. In 1997, Denmark reached the point of self-sufficiency in oil and gas, and since then the country has been a net exporter of these raw materials, an undeniable asset, although not of the magnitude of the Norwegian petroleum industry.

Since Denmark is deprived of natural resources apart from the soil and lately oil, the Danes have had to resort to other means of earning an income. Over the past few decades, knowledge-based industries have developed, taking advantage of the high level of education in the population, be it as craftsmen, technicians, or academics. The pharmaceutical industry especially and biotechnology have expanded considerably. Medical equipment and healthcare products are another example, with large-scale exporters of—for instance—hearing aids and other products which have been developed from the needs of the extensive welfare system. Engineering, especially consultancy, windmills—the latest success being offshore mills—water treatment, and refining of measuring and precision instruments with a high content of sophisticated technology, such as sensor technology, all this coupled with a pronounced sense of

design and aesthetics, create the characteristics of modern Danish niche export industries.

Again, due to the limited amount of natural resources, Denmark has opted for environmental solutions and renewable energy in the shape of clean-tech and green-tech, fields in which Denmark is a front-runner. The latest goal is that by 2020 as much as 30% of the consumption of energy should come from renewable energy, primarily wind mills. At the time of writing, Denmark is already world champion in the efficient use of energy, since production and productivity have increased without a rise in the consumption of energy.

Another area where the Danes have a century-old tradition is the so-called blue sector—shipping, shipbuilding, and related industries. Shipbuilding has seen an undeniable decline, and this is where the production of huge offshore wind mills has taken over.

Among the more surprising and rising competencies and knowledge-intensive industries we find textiles/clothing—not their production but design, planning, logistics, and sales—and the film and television industry for all age groups, including children, as well as computer games and apps for smart phones.

## Norway

Due to the geography and geology of **Norway**, it was for a long time the poorest of the three Scandinavian countries. Its main resources were hydroelectricity and forestry forming the basis for the wood-processing industry, fishing, including fish-farming, the basis of a large fish-processing industry, and some minerals (iron, silver, copper, manganese). The fishing industry also offered seasonal employment for many farmers, since half of all Norwegian farms are so small that a second source of income is necessary. Inland, this could also be in forestry. Since as little as about 3% of Norway's total area is arable, the country never developed a landed aristocracy.

In 1970, Norway began an era of unprecedented wealth when the exploitation of oil deposits in the North Sea began. The country

experienced a decline in the petroleum industry in the late 1980s, only to rebound in the 1990s, benefiting from increased production and higher prices. Since 1996, Norway has been the 7th biggest exporter of oil, and the oil sector amounts to about one-third of national income. Thanks to this resource, Norway now has the highest GDP of the three Scandinavian countries (61,500 US\$ per person), which is one of the highest GNPs per person in the world. Denmark accounts for about 46,600 US\$ PP and Sweden about 46,400 US\$ PP (Globalis.dk 2017).

In order to protect the country against the effect of fluctuations in the oil prices, the state in 1995 created the Government Petroleum Fund, in which the major part of the surplus from the oil industry is deposited. Among other things, it has been used to invest in countries outside Norway. Thus, in spite of great wealth, successive governments have kept tight budgets controlling the increase in welfare expenditures. The recent fall in oil prices will be a major challenge to Norway's economy.

## Sweden

Sweden long struggled with general poverty. As late as 1840–1930 this poverty led to massive emigration. In fact, over some 15 years more than one-third of the Swedish population left the country for more prosperous lands, especially to America (Nedström 2000). However, after a number of reforms in education, agriculture, and business, a long and continuous progress of the economy took place from around 1850, only interrupted by the economic world crisis of the 1930s. Serious industrialization gained momentum from the 1890s, assisted by a new infrastructure of canals and railways.

The economic history of Sweden is remarkable in several respects. *First* of all, it achieved something that many developing countries have struggled and failed to do: it made the transition from a raw materials economy to a manufacturing economy. Such manufactures as Sweden enjoyed in the 1700 and 1800s were based on the raw materials, principally timber, pulp, iron ore, and some processing of agricultural

produce. These were also the mainstay of Swedish exports; for instance Admiral Nelson's fleet which bombarded Copenhagen in the Napoleonic Wars used Swedish timber, and without imports of Swedish oats British horse-drawn transportation would have come to a halt.

*Second*, Sweden's manufacturing economy was founded extensively on a series of inventions and discoveries in the late 1800s and early 1900s. These included most famously Ericsson's invention of the telephone in 1876, von Platen's invention of the gas-driven refrigerator, the development of the revolving lighthouse, the perfecting of the ball-bearing, the development of the cream separator by Gustaf de Laval, the pioneering of powered mining equipment, and the vigorous exploitation of the internal combustion engine. In the 1890–1920 period, a raft of big name Swedish companies were founded, including Ericsson, ASEA, Electrolux, SKF, Alfa Laval, and AGA.

*Third*, Swedish industry internationalized at an early stage, in various senses:

- Becoming strong exporters;
- Establishing manufacturing operations in other countries;
- Earning the larger share of their revenue outside Sweden;
- Having a non-Swedish workforce (in other countries) that exceeded the number of Swedish employees; and
- Developing a management cadre with substantial international experience.

*Fourth*, Sweden did particularly well in the aftermath of the Second World War (1939–1945). As a neutral country Sweden sold to both sides during the War, and increased its exports to Nazi Germany very much in the early stage of the conflict, but its real opportunity came in the years after the War. A deeply industrialized country that had not been occupied or fought over, whose plant and equipment had suffered no damage, Sweden was wonderfully well-placed to respond to the post-war demand for goods of all kinds.

But it is the breadth and range of Swedish industry that is most striking. Consider that Sweden:

- makes cars, trucks, buses, and aeroplanes;
- is a leader in power generation/power engineering;
- has a leading telecommunications company in Ericsson;
- has one of the world's leading electrical consumer goods companies in Electrolux;
- has an enormous range of metal and mechanical engineering and industrial products including mining equipment, rock drills, welding equipment, rolling stock, ball-bearings, instruments, lighthouses, industrial gases, turbines, diesel engines, cutting tools, and process industry equipment;
- has an arms industry;
- and a pharmaceutical industry;
- as well as a massive presence in wood, wood products, pulp, and paper.

In addition, it still brews its own beer and processes a lot of its own food. It even has two retailers, Hennes and Mauritz and the mighty IKEA, that have been very successful abroad.

This is a remarkable achievement for a country of barely 10 million people; in fact, it would be fair to say that as far as industry structure is concerned Sweden strongly resembles the much bigger Germany, albeit on a smaller scale.

## Part II: The Culture

### Cultural Similarities

In the following section, we will come back to the homogeneity thesis by treating some of the similarities at different levels of analysis: the societal level, the labor market, the organizational level, and the level of people management.

## The Societal Level

We find a surprising number of societal and organizational similarities including:

- Similar philosophy in societal institutions;
- Advanced welfare states;
- Social solidarity;
- Strong trade unionism;
- High level of general education;
- High female participation on the labor market; and
- Relatively small wage differentials. (Schramm-Nielsen et al. 2004: 150)

All three countries are welfare states of the Scandinavian type. The main difference between this type and a continental European type or Anglo-Saxon type is that it follows a universal principle, meaning that everybody is entitled to social security benefits independent of income, prior or present. In other words, a person is entitled to social benefits whether he or she has ever had a job or an income (Schramm-Nielsen et al. 2004: 8). Unlike a number of other European countries, in Scandinavia, the welfare state is not a social security arrangement or an insurance against poverty, but rather a contract between the State and the people. One implication of this is that people's expectations and attitude toward the State are more positive than in the rest of Europe. The State is seen less as an authority and more as a service organ (Andersen 1991/ Schramm-Nielsen and Lawrence 1998).

The confidence of the citizens in their public institutions is a social capital of great value, which gives a sense of common destiny, makes everyday life easier and less bureaucratic than in many other countries.

## The Labor Market

The power of the labor movement is legendary in Scandinavia. It reflects the relative balance of power between capital and labour both



in political and industrial relations implemented by strong social democratic parties (Ibsen 1997).

The industrial relations system in Scandinavia was based on 'basic agreements', first in Denmark in 1899, then later in Norway in 1936 and Sweden 1938 (Saltsjöbadavtalet). The basic agreements stipulated the ways of regulating the labor market: basic union rights, the managerial prerogative, the collective agreement as the way to regulate wages and work conditions, and ways to solve industrial conflicts. Another key element in the Scandinavian model is the union structure and the high density (Ibsen 1997). Trade union density is especially high in Sweden and Denmark (67%) for blue- as well as white-collar workers, and somewhat lower in Norway (52%). Indeed, Scandinavian union membership rates are among the highest in the world, surpassed only by Iceland (85%) (OECD.stat 2017).

During industrialization, the two main parties, the employers and the workers, soon became so well organized that often both realized that neither of them would be able to win an open fight. Consequently, compromise became the solution *par excellence*. Should a compromise not be reached initially, the social democratic government tended to intervene, directly or indirectly, often at the expense of the employers. Their common desire to keep government intervention to a minimum has facilitated orderly and responsible collective bargaining. On the other hand, the close relationship between social democratic governments and the labor unions has also led to friendship and complicity between them, which may have blocked the way for solutions not invented by either of them (Schramm-Nielsen and Lawrence 1998).

The interaction also includes the political sector, and in this respect Scandinavian countries and, until recently, especially Sweden—represented a corporatist model, where the interested organizations on the labor market initiated and created a system of representation in political bodies, and where we still find intensive cooperation between these organizations and the state. Thus, the two central labor market organizations cooperate with government bodies to formulate the main guidelines for the implementation of economic and social policies. This tripartite cooperation has been institutionalized, a routine has developed over the years, and the result is an integrated consensual decision-making system,

in which the interests of the large majority of citizens are recognized. This pattern of relationships is especially marked in Sweden.

All this contributes to a deliberate restraint and regulation of open conflicts, in which the bargaining power of each party is decisive and calls for moderation, but also in which, trade unions and other interest groups may influence government policies (Schramm-Nielsen and Lawrence 1998).

The system has ensured orderly and responsible negotiations on the regulation of pay and working conditions for virtually the entire labor market, creating relative peace, and stability for employers and constant gains for workers (Schramm-Nielsen et al. 2004).

To put the system into perspective: the conflicts leading to demonstrations in the streets which we often see in southern European countries have moved indoors in Scandinavia, where the battles are fought round the conference tables. In other words, there has been a change from a confrontational attitude of ‘them and us’ to a much more cooperative style. The Scandinavian companies’ shop stewards play a particularly important role. Thanks to increased training, the shop stewards have gained a deeper understanding of the businesses and their condition—they read the accounts and understand the challenges—which creates this awareness of everyone being in the same boat. What is good for the company is good for the employees.

Today’s reality is that union representatives are being trained by their peers to understand the mechanics of the running of a business, and for its part management is prepared to compensate workers and employees in an equitable way, expressed in relatively high wages.

Here, we can give an example of management–workforce relations: at the time of writing, the Minister of Employment from the liberal party ‘Venstre’ and the leader of the union of metal workers are touring Denmark to convince employees that the use of robots and advanced new technology will be beneficial for all parties. Their argument is that new technology means job creation and a richer society and that it should be embraced. This positive attitude to innovation and information technology is also prevalent in the public sector.

The most striking quality of management–workforce relations, we find is the willingness to cooperate on implementing rationalization

strategies. Especially in Norway and Sweden, managers expressed unconditional loyalty to rules in dealing with the trade unions. Indeed, the general attitude to trade unions in Scandinavia is a far cry from the confrontational style that we see in Southern Europe, say France and Italy, not to mention the USA. Non-Scandinavian managers opposed to union power will find the Scandinavian attitudes almost incomprehensible.

However, increasingly trade unions in Scandinavia are facing a more dynamic and multinational business environment, and union membership is slowly dwindling, especially among the younger generation.

The bargaining structure in the Scandinavian countries has historically been a combination of centralization and decentralization, centralized agreements on the national level between the national federations on the employer and employee side, and decentralized at the local branch or enterprise. The tendency is now toward decentralization and individualization of the wage formation process.

Recently, the Danish '*flexicurity*' model has attracted much attention outside Scandinavia. According to this model manual workers as well as white collars enjoy little legal protection against dismissal; this is compensated by fairly generous welfare provisions for the unemployed. The companies can easily get rid of redundant people, and for that same reason they willingly take on new people as soon as the economic prospects improve. This makes the labor market extremely flexible and mobile.

So how does all this effect competition on the world market?

The Global Competitiveness Report 2016–2017 assesses the competitiveness landscape of 138 economies, providing insight into the drivers of their productivity and prosperity.

In its annual report for 2016–2017, the Scandinavian countries are again among the top 20: Sweden number 6, Norway 11, and Denmark 12.

The possession of a well-educated labor force is one of the major explanations for a high level of competitiveness, and this goes for blue collar as well as white-collar people. Many blue-collar workers have an apprenticeship education or technical schooling of three or four years on top of 9 or 10 years of compulsory school. These days this will necessarily imply a certain level of IT knowledge. As for white collar employees, the share of persons of working-age who have a tertiary level education (age 18+) is 40–43% (OECD Education at a Glance 2016),

which is higher than the OECD country mean, and compared with EU countries this gap is even larger, according to Eurostat estimates. As in a number of other countries, there has been an explosion in higher education since the 1970s, and the number of students in higher education is still growing. An interesting feature here is that, in the younger age groups, females are better educated than males, whereas the opposite holds true for the older age group.

Although the level of education is already high, there is a constant interest in up-skilling the labor force, white collars as well as blue collars, not least in information technology, indeed the Scandinavian paradigm focuses on lifelong learning.

## Organizational Level

Foreign observers have often noted that Scandinavian management style is characterized by soft, indulgent and participative behavior. These characteristics can be related to the hierarchical relationship and the organizational structure.

Scandinavians favor 'top light' management hierarchies with as few layers as possible. A hierarchy is considered a necessary evil for the functioning of an organization, but not a goal in itself and the general opinion is that it should be kept to a strict minimum. This is also evident at the shop floor, where we find remarkable examples of wide spans of control, with between 60 and 150 operators per process leader. Advanced information technology is used to plan production and distribute tasks, and from the screen each operator can easily see what to do next, so that a foreman is not really needed. In some cases the group coordinator task may rotate among the operators without extra pay, or simple tasks rotated in order to upgrade skills and promote multifunctionality.

The lack of strong traditions of hierarchical authority is important, since high value-added production based on a well-educated workforce is likely to be the future for Scandinavia and the world in general.

Also, in a Scandinavian setting, there is little or no personal control of subordinates' work, since they are supposed to be responsible for their sphere of work. They are self-directed, and control systems on the personal level are only enacted if something goes wrong.

One of the most uniform features of management in the Scandinavian companies is the emphasis put on information, discussions and suggestions before decision-making. This is seen in the many types of meetings; some are regular, others more ad hoc. For the formal meetings there is a written agenda, which may stay unaltered for years, and in most types of meetings, minutes are taken and distributed to whomever might be concerned. This approach contributes to an open communication flow. Management meetings often involve several departments or several levels of the hierarchy, and this phenomenon has become more common due to process-oriented organization structures, coordination committees, more or less permanent projects, or even matrix structures.

Any understanding of Scandinavian management necessarily implies the realization of the strong impetus for *consensus* and *cooperation*. This attitude implies an emphasis on discussion and bargaining as participants work toward an acceptable *compromise*. The key word here is the very notion of cooperation which means working together toward a common goal.

Another distinctive feature of Scandinavian management is the importance put on the decision-making process itself, which may be lengthy. It should in principle be open. Coordination up front or pre-decision is considered unfair; participants should have reasons to believe that they have a real possibility of influencing the outcome. The (English) habit of having 'a meeting before the meeting'; a meeting, that is, of the inner cabinet, of the real power holders, is considered unfair. The Scandinavian way, it is more likely that employees will identify with a decision, even when it is not in their favor. Loyalty to the decision process may in many cases be stronger than loyalty to particular leaders, no matter how charismatic or competent they may be. If the decision-making process is unfair, this loyalty may fail, leaving managers in a rather precarious situation. Another reason for the often lengthy decision-making processes is that people should have information in order to understand the reasons for the decisions. Even if they do not agree with the outcome, or if the outcome is unfavorable to them, it is more likely that they will participate in the implementation of the decision if they are familiar with its grounds. Some managers even say that it is better to have a thorough decision-making process than to try to find the people who work against a decision and spread confusion in the whole organization afterwards.

A crucial point is that decision-making is usually delegated to a large number of people, all of whom can make decisions on matters related to their area of responsibility, thereby also spreading power, or responsibility as Scandinavians would put it. This means that managers have to work in constant cooperation with lower layers of the hierarchy, making all parties interdependent. In such a context decision-making becomes a mixture of top-down and bottom-up decisions.

The weak power relations, or short power distance, are the result of a basic egalitarianism which is cultivated by all parties concerned. There is a strong expectation that people should be treated alike as much possible, and that differentials in treatment, if any, should be explained on a rational basis.

The ideal is to reach a consensus. In many cases, everybody knows after a while what the outcome will be. And there is of course a limit to the discussion. If people do not reach a conclusion, the superior must in the end decide. However, a manager should not use this strategy too often when it comes to complicated strategic decisions, since it might undermine his or her credibility in terms of the democratic process.

Allowing discussion before decisions does not mean that management can abdicate. Managers must point out the important strategic choices, highlight the decision factors, and stand or fall by what they believe. But still, participation is the keyword.

One of the problems with group decisions is that they may result in weak individual incentives for making a difference, for standing out. This consensus-seeking approach, that is, may be in discord with the individual killer instinct that is sometimes needed in tough, rapidly changing business environments.

## **People Management and Interpersonal Behavior**

Perhaps one of the more surprising elements of management in Scandinavia from the viewpoint of non-Scandinavians is the interpersonal behavior. Apart from the importance placed on low power distance, egalitarianism, cooperation and consensual decision-making already mentioned, this behavior is marked by informality, direct

communication, and conflict avoidance. Whereas some of these characteristics may also apply to other cultures, it is their combination that makes Scandinavia different (Schramm-Nielsen et al. 2004).

Managers make a point of playing down their authority to an extent where they seem almost scared by its exercise; direct orders are rare, and managers make a point of being able to talk on equal footing with everybody, including workers.

In talking about good results obtained, Scandinavian managers will invariably refer to the team as being responsible for the success, knowing that they would be ill advised to take the credit alone.

In communication, Scandinavians are direct, down to earth, and factual. The egalitarian ethos has done away with all markings of hierarchical differences and polite formalities, to such an extent that many foreigners used to a more formal style find the Scandinavians impolite and even rude. Everybody is on a first name basis whatever his or her rank.

In meetings foreigners may be at a loss to see—or even hear—who is the boss, since anybody present can speak his mind, ask questions, even critical ones, or come up with ideas. This has to do with the ability of individuals to make independent assessments of situations and phenomena, an ability which is expected at all levels. Scandinavians like to get quickly to the point, and ideally any meeting should end with a result clear to all present.

We would like to stress the informal and nonhierarchical nature of meetings, where anybody present can speak his mind, and the atmosphere is relaxed and calm, though disciplined. It is not accepted to shout or lose one's temper, feelings are not considered a good basis for work, and people go to great length not to hurt the sensibilities of others. They exhibit a high degree of self-control and restraint. If they have grievances of a personal kind, they will keep them to themselves and take care not to stir up conflicts. Problems of personal chemistry are preferably dealt with on a general level. Instead of saying directly to someone that you do not like the way he handles things, you may talk to his manager in order to put procedures on the agenda. Even if people do not get along personally, they are expected to maintain a decent working atmosphere in the group. That, at least, is the ideal although in some cases people have to be moved around in the organization to solve

such problems. One of the reasons for going to such lengths to avoid conflict is the stress put on cooperation and teamwork. The attitude is to 'kick the ball, not the person'.

The communication style is mostly unassertive, nonaggressive, and nonconfrontational. Instead, the stress is on cooperation horizontally and vertically in the organization and in striving for consensus as far as possible. The nonaggressive and nonconfrontational attitude finds expression in the exact opposite, in conflict avoidance and conflict shyness, and do not be mistaken: silence and stony faces do not necessarily mean: we agree. It may very well mean 'we do *not* agree, but we don't want to stir up conflicts.' Especially, Swedes tend to swallow grievances and avoid confrontations; instead they may get very quiet, and maybe even leave the room if things get unbearable.

We can now sum up on the description of a relative Scandinavian homogeneity as follows:

- A management style characterized by informality, equality and restraint.
- Paralleled by generally flat hierarchies and relatively compressed salary spreads.
- A consensual, participative, and inclusive approach to decision-making and change implementation.
- Reluctance by most managers to articulate their power; an inclination to reasonableness and quiet persuasion rather than to charismatic dominance.

It is difficult to find other countries that replicate this combination of values and practice.

## Differences

As we have seen, the three countries differ vastly in geography and natural resources. Denmark and Norway are similar in industry structure with many small- and medium-sized companies and just a few large companies, whereas Sweden stands out with a surprisingly high number



of large-scale companies. Attitudes towards European integration have been vastly different in the three countries, with Denmark joining the community as early as in 1973, Sweden only some 20 years later, and Norway not at all. Norway has a large state-owned business sector, especially in the oil industry, in contrast to Denmark that has practically none.

At the organizational level, the Swedes are extremely rule-oriented. Once a decision has been made involving all parties concerned in the organization, it is next to impossible to divert from it, whereas Danes would be more willing to change in order to respond to new circumstances. Such a situation might frustrate the Swedes, who would find the Danes unreliable.

At the interpersonal level, the Swedes are by far the most conflict avoiding. Indeed, it may be hard for Swedes to admit to the existence of any conflicts at any time. Norwegians are also cautious not to provoke confrontations and open conflicts, the Danes perhaps less so.

Lately, the Swedes have demonstrated a high level of political correctness leading to politically correct ways of expression, which makes it difficult to discuss obvious societal problems such as the effects of mass immigration from third world countries. This tendency was epitomized by former Prime Minister Fredrik Reinfeldt (2006–2014 from the liberal-conservative party 'Moderaterna'), who wanted Sweden to be a 'humanitarian great power' by opening 'our arms and hearts for refugees.'

## Conclusion

As we have seen, our three countries under study are very different in geography and natural resources, which in consequence means that industrialization has also taken different paths. They have a shared—but not always peaceful—history. On the other hand that shared history has been without severe clashes for the past two or three hundred years.

The Scandinavian countries combine capitalism, socialism and democracy, and yet manage to stay economically competitive. They are advanced welfare states to a large degree influenced by the social democratic party

that was in power over many decades in the twentieth century. The countries represent an excellent example of a country cluster, in as much as they share values and attitudes in many spheres of life and exhibit cultural similarities at different levels of analysis: the societal level, the labor market, the organizational level, and the level of people management.

If there is comparative strength in management–workforce relations in Scandinavia, it is the belief in the mutual benefits of delegation of authority even down to the operator level by means of information, training, and responsibility.

In view of the fact that the Scandinavian countries score high on many international scales such as corruption and confidence and not least when it comes to people management and interpersonal behavior, Scandinavians have to realize that *they* are different from most when it comes to business culture.

Scandinavians may believe in consensus and equality and dislike the articulation of power, but nobody else does, at least not with quite the same conviction.

There is another twist to this non-fit between Scandinavian values and those of some other countries, it is that business partners from some of these other countries who enjoy elite status in their own society and take the exercise of power for granted, may not relish having these pluses neutralized by a Scandinavian insistence on equality and consensus.

But if change due to globalization is the imperative, then the Scandinavian decision process offers the best opportunity to adapt in a way that is not socially destructive.

We take this opportunity to point out that globalization is a technical phenomenon. It has to do with new technology and easy communication across borders of goods and people. However, it is of paramount importance to stress that globalization does not change the minds of individuals as fast as communication systems develop. The human mind is slow to change due to early socialization into the enviroing culture, and culture is what shapes the way people think, act, and react. We believe that there is a tendency to underestimate the importance of language, culture, and nation states in international business.

## Import or Export of Business Cultures

As we all know, most management models come out of the USA and are copied by many countries around the world. In this respect, the Scandinavian countries are no exception, and since the beginning of the industrial era, we have been through most of the fads and fashions that originated as theories in the North American business schools and were lived out in practice in American corporations.

The latest US buzz words circulating in Scandinavian organizations—and to some extent lived out—are performance, team culture, robust, and motivated individuals, autonomous and ready for change. While some of them like ‘team spirit,’ ‘autonomous,’ and ‘motivated’ are already an integral part of Scandinavian business culture, others such as ‘performance’ and ‘robust’ may be stress provoking, an increasing problem in Scandinavian organizations.

In this connection, two important facts are worth remembering. The first one is that in general Scandinavian employees are highly educated, a large percentage has university level diplomas, and the second one is that in the foreseeable future, all three countries will face a lack of brain power due to low birth rates over the past decades. It is therefore in the interest of all parties concerned to nurture and develop whatever capacity they have within the framework of the private company. They do so, for instance, by offering private health care insurance, access to sports clubs and fitness centres, canteen service at reduced prices, superannuation schemes, physiotherapy, extra days off negotiated with the unions, gifts for Christmas within tax accepted limits, etc.

### Can and Should the Scandinavian Business Culture Be Exported?

Our next question is in a way rather logical: Since a thriving American business life has successfully exported American theories and management models, why should not a thriving Scandinavian business life be able to export its specific model?

The first and easiest answer to this question is that all countries regard their specific culture as more or less nature given. So why change it? A valid argument might be economic and social development, in which the Scandinavian countries excel. All countries and populations would of course like to be as rich as the Scandinavian countries, but the Scandinavian culture with its ethos of egalitarianism and result oriented behavior seems very exotic in a world where most countries are hierarchical and relations oriented.

However, other rich Western countries might profit from good ideas developed in Scandinavia. So, let us look at a concrete example, namely the Danish 'flexicurity' model mentioned earlier, which combines flexibility on the labor market with social security provisions.

The EU Commission has praised it, and politicians and experts from a large number of countries including the USA have literally poured into Denmark to learn how the model works. Many returned enthusiastically, determined to try to implement it in their country, only to be met with heavy internal opposition. In the USA, employers wanted the flexibility but not the security part, in Germany unions wanted the security but not the flexibility, and in France, there were demonstrations in the streets to protest against a partial implementation on youth unemployment, already a big problem in France. The demonstrators simply did not trust the good intentions of the politicians.

What these examples may show is that for change to happen there has to be a win-win situation for all parties concerned, unemployed, and employed, employers and employees, politicians and citizens.

Our best and most optimistic guess is that the examples lived out in the thousands of Scandinavian companies spread around the world, where Scandinavian management practice is put to work, adapted to the local conditions, are the best way to export the Scandinavian model.

## Bibliography

Andersen, B.R. 1991. *Velfærdsstaten i Danmark og Europa*. Copenhagen: Fremad.

- Fivelsdal, E., and J. Schramm-Nielsen. 1993. Egalitarianism at Work: Management in Denmark. In *Management in Western Europe*, ed. David J. Hickson, 27–45. Berlin: de Gruyter.
- Global Competitiveness Report. 2016–2017. World Economic Forum, Competitiveness Rankings.
- Globalis.dk. 2017. FN-forbundet i Norge (UN Association in Norway). Mail: fnforbundet@fnforbundet.dk.
- Haire, M., et al. 1966. *Managerial Thinking: An International Study*. New York: Wiley.
- Hofstede, G. 1980. *Cultures Consequences*. Beverly Hills, CA: Sage.
- Hofstede, G. 2001. *Culture's Consequences—International Differences in Work-related Values*. Beverly Hills, CA: Sage.
- Ibsen, F. 1997. The Role of the State in Industrial Relations in the Nordic Countries. In *The Role of the State in Industrial Relations. The Official Proceedings of the Fifth IIRA European Regional Industrial Relations Congress*, vol. 3, ed. J. Browne. Dublin: Oak Tree Press.
- Larsen, Henrik Holt, Jette Schramm-Nielsen, and Inger Stensaker. 2011. Talent Development as an Alternative to Orthodox Career Thinking: the Scandinavian Case. In *The Oxford Handbook of Lifelong Learning*, ed. Manuel London, 329–344. New York: Oxford University Press.
- Monday Morning. 2009. *The Danish Secret*, Special ed. Copenhagen: The Leading Independent Think Tank in Scandinavia.
- Nedström, C. 2000. Sweden in Europe. In *European Business Cultures*, ed. R. Crane. Harlow: Pearson Education.
- OECD. 2016. Education at a Glance. 2016. OECD Indicators. Paris: OECD Publishing. <http://dx.doi.org/10.187/eag-2016-en>.
- OECD Stat. 2017. Organisation for Economic Co-operation and Development. Labor. Trade union density. <https://data.oecd.org>.
- Office Fédéral de la Statistique, SILC. 2016. *Confiance dans le institutions*.
- Schramm-Nielsen, J. 2002. Management in Denmark. In *International Encyclopedia of BUSINESS & Management*, ed. Malcolm Warner. London: Thomson Learning.
- Schramm-Nielsen, J., and P. Lawrence. 1998. Scandinavian Management, A Cultural Homogeneity Beyond the Nation State. In *Entreprises et Histoire*, no. 18. Paris: ESKA.
- Schramm-Nielsen, et al. 2004. *Management in Scandinavia, Culture, Context and Change*. Cheltenham: Edward Elgar.

- Sønderskov, Kim Mannemar, and Peter Thisted Dinesen. 2014. Danish Exceptionalism: Explaining the Unique Increase in Social Trust over the Past 30 Years. *European Sociological Review* 30 (6): 782–795.
- Tamm, Ditlev. 2016. *Hvorfor er vi så glade for staten?* København: Eksistensen.
- Transparency International. 2016. Corruption Perception Index.

# Transformation in Society and Changes in Estonian Management and Business Thinking

Ruth Alas and Tiit Elenurm

## History of Estonia

Estonian history has been shaped by attempts by larger nations around the Baltic Sea to dominate this region. Sahlins (1985) argues that one cannot really understand certain social phenomena without understanding both the historical events and the cultural meanings attributed to these events by the relevant actors. In order to provide socioeconomic explanations, which are rooted in the historical and contemporary circumstances of societal and organizational transformation, a short description of the important stages in Estonian history starting from the first period of independence, when Estonians were still at an early stage of creating a unified nation are given in Table 1.

---

R. Alas (✉) · T. Elenurm  
Estonian Business School, Tallinn, Estonia  
e-mail: ruth.alas@ebs.ee

T. Elenurm  
e-mail: tiit.elenurm@ebs.ee

**Table 1** Institutionalization in Estonian history

Period	Event	Institutionalization
1200–1918	Under the rule of different foreign states Creation of an independent state	
1919–1940		Creation of institutions followed by a period of stable institutions
1940	Soviet occupation	Deinstitutionalization and reinstitutionalization
1950–1980	Under Soviet rule	Period of stable institutions
1980–1987	More autonomy for enterprises	Creation of additional institutions
1987–1991	Concept of Estonian economic autonomy inside the Soviet Union (IME), movement toward independence	Creation of new additional institutions
1991–2001	Re-establishment of independent state	Deinstitutionalization
1991–1995	Transformation from planned economy to market economy	Social transience
1995–2001	More stabilized economic situation, market economy	Reinstitutionalization, more stable institutions
2002	Entry to NATO	Creation of additional institutions
2004	Entry to European Union	Reinstitutionalization
2011	Entry to Euro zone	Partial reinstitutionalization

During early history, beginning in the thirteenth century, Estonia was under German, Swedish, Danish, or Russian rule. Estonians never had their own king like the Lithuanians, the southernmost of the three Baltic nations. When an Estonian national identity started to develop in the nineteenth century, earlier centuries were labeled by the initiators of the Estonian national movement as 700 years of dark serfdom.

Estonia gained independence at the end of the First World War, when Tsarist Russia collapsed and German troops had to withdraw from the Baltic countries after the German defeat in this war. The young Estonian state was, however, forced to fight a War of Independence both against Bolshevik troops and against the Landeswehr, formed by



supporters of the German nobility in the Baltic countries. During the independence period from 1918 until 1940, Estonian national culture experienced intensive development. During these 22 years of independence, Western values in terms of work ethic, individualism, and free enterprise were adopted in institutions in the fields of the economy and education (Barnowe et al. 1992, p. 180).

In 1940, the Soviet Union annexed Estonia and started rapid sovietisation of all fields of social and economic life in Estonia. This effort involved the pursuit of two goals: state socialism and russification (Taagepera 1993, p. 106). During the Second World War, Estonians were mobilized both into the Soviet and German armies and some young men fled to Finland in order to join the Finnish army instead of the occupying German army. Between 1940 and 1955, Estonia lost 25–30% of its original population. This loss included mass deportations throughout the 1940s (Taagepera 1993). A large Soviet military garrison and the continual influx of Russian-speaking colonists replaced the lost population. Whereas in 1945 Estonians constituted 94% of the population, by 1989 they made up only 62%.

Although Estonia was one of fifteen Soviet republics that formally had some degree of sovereignty, the Soviet system was, in fact, built upon ideological domination of the centralized rule of the Communist Party and on a hierarchical state coordinated command economy through bureaucratically administered structures. Political, economic, and other forms of institutional power were drawn from Moscow and operated in a unidirectional manner, including severe limits to free movement of information. During the totalitarian regime in the Soviet Union, it was not safe to speak openly or share personal thoughts (Taagepera 1993). For this reason, Estonians developed two levels of communication: They learned to speak and use the official language and dogma of the communists in public as a form of lip service, and the second and genuine national level was used in their families and with close friends. Children learned this communication finesse before school age (Nurmi and Üksväärv 1994). Employees in the Soviet era were used to getting interpretations of political and social events from trusted colleagues of organizations, where they were employed (Üksväärv 2001) as they could not trust the Soviet mass media. This habit has influenced

their understanding of change in organizations even today. They had more to unlearn than younger people who started their careers in market-oriented organizations.

In the 1980s, the Soviet information blockade began to crumble and more people from Soviet Estonia were given the opportunity to visit other countries. After the death of Stalin, during the Khrushchev era, more autonomy was given to the Soviet Republics, and in the 1960 and 1970s the economic situation began to improve (Üksvärav 2001). Reforms began around 1980 with long-term reassignment of parts of state or collective farms to groups organized independently of central command (Misiunas and Taagepera 1989). In the service sector, an analogous development known as contractual task acceptance was also taking place (Misiunas and Taagepera 1989, p. 78). At the same time, however, economic growth in the Soviet Union stagnated and there was a shortage of consumer goods. Comparisons between life outside and inside the Soviet Union resulted in a reassessment of values (Saarniit 1995). This development could be interpreted as an institutional change from the social perspective. Saarniit (1995) explains this phenomenon by citing the decrease in economic growth at the end of the 1970s and the increasing deficit and corruption, which culminated in economic differentiation not based on the talent or work effort but rather having contacts with employees with access to the distribution system of consumer goods. As the global mass media developed, there were increasing amounts of imported goods available for privileged groups and it was possible to watch Finnish television in the northern part of Estonia. Saarniit (1995) concludes that the information blockade had weakened, that the scope for comparison with other countries had become broader and that people had started to reevaluate.

In the second half of the 1980s, as the result of Gorbachev-initiated reforms but also due to economic experiments supported by local Estonian authorities, enterprises were gradually given more autonomy. It became legal to develop small state enterprises, and even international joint ventures, which operated outside central planning and—later—could be owned by private citizens (Venesaar and Vitsur 1995). In 1987, Estonia was at the forefront of reforms in the Soviet Union. The Economic Autonomy Proposal known in Estonia under the acronym

IME was published in popular newspaper “Edasi” (Terk 2000). In 1990, an important change occurred in the strategic aim of the reforms in Estonia: Economic autonomy was replaced by the goal of independent statehood and the restoration of a market economy (Taaler 1995). These changes prepared the Estonian population for using opportunities during the Gorbachev perestroika that allowed it to take the first steps toward a market economy and toward regaining Estonian independence in August, 1991.

## Transition to a Market Economy in Estonia

According to Denison (2001), the transition process began with macro-level political and institutional changes that created a new environment in which organizations must operate. The transition from a command economy to a market economy involved social processes of fundamental political, economic, and cultural changes in structures and values at all levels of society. Institutions of the society in transition could be seen from both the structural and social perspective. From a structural viewpoint, institutions existed as institutionalized forms of external social constraints. From the social perspective, institutions could be understood as operating to enforce behavioral definitions, which might take the form of either “cultural accounts” or “cultural rules.” This situation means that institutions are accounts of how the social world works and embody normative principles and social values (Meyer et al. 1994, p. 24). Socioeconomic transformation, at both the macro- and micro- level, could be understood as institutional change, from both the structural and social perspectives, embracing both structures and social values. The transformation away from central planning increased endogenous activity substantially, as the transition both forced employees to be more active and at the same time created more favorable conditions for employee self-realization (Liuhto 1999).

*Deinstitutionalisation* and *reinstitutionalisation* processes have taken place during the transformation to the market economy. During these processes, patterns, and activities have been redefined on the basis of values which differed from values previously taken for granted.

Such circumstances created acute social and psychological problems for the social actors. This period has been called *social transience* (Clark and Soulsby 1999, p. 40). During the Soviet period, the state was responsible for guaranteeing work for everyone. As a result, enterprises were internally overstaffed and passive. Due to the fact that during the Soviet period, workplaces were over-secured, employee attitudes toward work were far from ideal. During the Soviet period, companies had slack resources, because the state was responsible for guaranteeing work for everyone. Soviet organizations also acted as important social centers with cultural events and hobby circles (Nurmi and Üksväärv 1994), and organizational cultures promoted stability. People were not expected to differentiate from others. Avoiding failure was more important than achieving success.

The challenge was to internalize a new type of organizational behavior in order to operate successfully under unfamiliar conditions. Peter Drucker argued that what was needed was a revolution in managerial culture in Central Europe—to undo 40 years of the wrong values, incentives, and policies (cited by Barnowe et al. 1992, p. 179). This is also true for Estonia. Research results have indicated more favorable attitudes toward change and task-orientation of organizational culture among the younger employees, who started their careers during the economic reforms (Alas and Vadi 2006). When the transition of Estonian society started, older people had a certain package of working habits and attitudes toward organizational tasks. However, this view turned out to be somewhat different from what organizations now needed. In the market economy, these relations were replaced by relations based on the competition and money (Üksväärv 2001). This may be considered as one reason why younger people, without habits obtained from planned economy, were less influenced by the opinions of others than older people. Work ethics had to change and entrepreneurial values had to be legitimized.

From the societal view, it is important to point out that during the transformation process, the responsibilities of companies were redefined—companies focused solely on the economic priorities and renounced their corporate responsibility for providing social services

to workers. It should be taken into consideration that in the command economy, people grew to maturity trusting that the state would take care of them. Thus, the market economy situation caused confusion and fear among these people. During economic transition, many of them found their profession obsolete or their professional skills not appropriate for producing quality goods. People's social and group identities crumbled or broke down, and it became difficult for the individual to retain a reference structure on which to base rational action (Weik 2001).

The development of private entrepreneurship in Estonia had four phases: The first steps were taken in the late 1980s—before the disintegration of the Soviet Union. In the spring of 1988, over 600 cooperatives were formed in Estonia representing the highest concentration of such enterprises in the Soviet Union (Palm 1989). The very rapid boom of small, new private ventures in 1990–1991 was followed by rapid expansion in 1992–1994 and by a moderate increase along with gradual stabilization and normalization of economic conditions from 1994 (Aho et al. 1998). Privatization of small enterprises had started already before the final collapse of the Soviet Union in August, 1991.

Introducing an Estonian national currency in June, 1992, helped to gain macroeconomic stability during next few years. Large-scale privatization of state-owned enterprises was conducted by applying the German Treuhand model that encouraged the involvement of foreign investors in the privatization process and also was used for launching the Tallinn stock exchange (Terk 2000). According to opinions held by managers, stability started to increase by 1995 (Liuhto 1999). According to Agenda 2000—Commission Opinion on Estonian Application for Membership of the European Union—Estonia had completed the transition to the market economy by 1997, when the report was written (Ennuste and Wilder 1999). Estonia pursued a liberal economic policy with an open economy (Rajasalu 2001) that also encouraged foreign trade and investment. People who became the owners of enterprises demonstrated the ability to react quickly and radically (Vadi and Roots 2006). At the same time, the period of rapid change became a source of great stress for some social groups which lost their earlier social position and income in the process of restructuring the enterprises (Saar 2005).

In order to study changes in organizations during the transformation, a comparison of the two periods was made: before 2000 and from 2001 to 2005. The structured interviews conducted with members of top management teams in 2001 and 2005 indicated changes in organizations (Alas 2007). First, the time period planned for organizational changes was longer in the more stable situation in 2005. If during for the first survey it was from 1 to 4 months, in 2005 the time planned for changes varied from 1 week to 3 years (Alas 2007). Second, the number of changes initiated by people, who had no formal power required to implement the change, was considered as change initiated from below had increased from 3% of all changes to 9% (Alas 2007). Third, the scope of change was reduced. During the period before the year 2001, in 90% of the companies, the transformational change had taken place. This type of change requires the highest level of learning.

People from the stagnant Soviet Union had to abandon their past established, standardized approaches to organization and work. However, they were not used to radical change and the inertia in the thinking of people in organizations became one of the biggest obstacles to the implementation of changes. Furthermore, many people did not have a clear vision about their future in a rapidly changing and evolving society and this lack of clarity reinforced their fear of the unknown. The managers of companies established before 1995 did not evaluate the implementation of change as having been as successful as did the managers of younger companies. This phenomenon we have interpreted as being due to the difficulty of unlearning and removal of defensive routines (Alas and Sharifi 2002). But during the second survey, only 64% of changes were of the deepest variety in terms of scope—involving changes in strategy, mission, leadership style, or culture (Alas 2007). During the implementation of organizational change, Estonian managers focused mainly on the unfreezing phase as highlighted in most Western models of change. According to the findings of this research, the actual model of change in Estonian companies consisted of four steps: (1) the determination of the need for change, (2) the creation of a vision, (3) the communication of the vision to employees, and (4) managers' involving employees in the implementation of change. In this final step, the managers inform, educate, and support employees and

try to reduce their defensiveness and inertia. The employees ignore and forget old skills and mental models and acquire new skills and behaviors (Alas and Sharifi 2002).

Before 2001, resistance to changes, which had appeared at all levels of their organizations, was mainly attributed to inertia in the thinking of employees (33%). The biggest difficulty was to unlearn their old ways of doing things and forget past practices (26%) (Alas 2007). A critical step in the change process was the creation of a vision, which was usually accompanied by the implementation of other steps in the change process, including the creation of a coalition and institutional changes. Those organizations, which had created a vision, also increased employee involvement and team building (Alas and Sharifi 2002). According to this survey, the evaluations of clusters of individual activeness were lower than those of collaboration (collectiveness). In addition, the low individual activeness in companies established before 1995 in a sense points to the Soviet suppression of individual initiatives (Alas and Sharifi 2002).

To generalize, changes in Estonia have been more rapid and radical than in Western countries which served as benchmarks for Estonia (Alas and Aarna 2016), because the new economic order was based on the different attitudes and values that could be also aligned to restoring the identity of Estonians as an independent nation. The attempt to shift the organizational culture toward new values or beliefs has been considered one of greatest challenges (Bluedon 2000).

Changes at the societal level during economic transformation have resulted in the collapse of structures, systems, rules, and principles that had made human behavior and social life understandable for over fifty years. This radical transformation left a vacuum of meaning for some social groups, including the immigrants that came to Estonia during the Soviet occupation and were not ready to learn the Estonian language—an essential prerequisite to integration into Estonian society. Deinstitutionalization of the command economy's structures had caused changes in both organizations as well as in the attitudes held by members of the population. Learning, both institutional and individual, and the ensuing corporate changes are seen as a prerequisite for the success and survival of organizations. Reinstitutionalization was driven



**Fig. 1** Estonian GDP per capita, PPP (current international \$). *Source* World Bank database <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>

by Estonian national legislation but also by the need to harmonize the Estonian legal framework for business with that of the European Union and to follow European values.

Estonian GDP grew rapidly during the transition process. Until the global financial crisis and even after the financial crisis, recovery was rapid (Fig. 1).

During recent years, the growth rate has, however, declined to only 1–3%. In 2016, GDP growth was 1.7% (Statistics Estonia 2017). This trend reflects low growth trends in the main export markets of Estonia but also the difficulties in the next change challenge—transition from an economy of subcontractors that enjoy an international advantage of low labor costs to a knowledge-based economy.

To conclude, the Estonian national way of thinking has been shaped by Finno-Ugrian roots and the cultures of different rulers: German, Swedish, Danish, and Russian. Also, 50 years under Soviet rule followed by social transience from a centrally planned economy to a free market economy and democracy have contributed to the development of new attitudes toward work and leadership. However, new the challenges of becoming internationally competitive in a knowledge-based economy lie ahead.



## Role of Management Education in Developing New Ways of Management and Business Thinking

There were no business schools in the Soviet Union. Economic departments of universities taught how to organize work and how to set production norms but a management curriculum was unknown (Üksväärav 2013). Estonia became the only republic of the Soviet Union, where a management curriculum was based on the traditional Western management theories since the 1970s (Kross 2013). A young faculty member of the Tallinn Polytechnical Institute, Raoul Üksväärav (2013), spent a year in the USA at the University of Berkley and the Massachusetts Institute of Technology in 1963. When he returned to Estonia, he established in the Tallinn Polytechnical Institute a department for teaching management according to the US model. He involved young faculty members and students in delivering lectures and consulting with the Soviet state-owned enterprises and ministries (Habakuk 2013; Leimann 2013). So, the Tallinn Polytechnical Institute became the first higher education institution where management disciplines were taught.

Understanding the complexity of leadership roles has, however, taken time even after years of transition toward the market economy. The culture of organizations in the Soviet Union was found to be bureaucratic (Andréen et al. 1993, pp. 178–179; Loogma 1988). Nurmi and Üksväärav (1994, p. 54) compared organizational cultures in Estonia and Finland based on the Trompenaars model and found that organizational culture in Estonian organizations was of the Eiffel tower type. This emphasis on hierarchy made this type of culture suitable to a stable environment, but too bureaucratic for the dynamic and highly competitive environment Estonia had to face in the market economy. Even in 2002, many subordinates still saw their managers as directive sources of information and not as inspirational leaders (Tuulik and Alas 2003). From a cultural-cognitive perspective, problems still exist with the Estonian public's mentality due to attitudes they have inherited from the centrally planned totalitarian Soviet system (Alas and Aarna 2016).

At the same time, the fact that management was already being taught based on the Western management theories 20 years before the Soviet Union collapsed could help explain why the transformation of the Estonian economy was one of the most successful compared with other former Soviet republics (Kross 2013). Estonian management educators had already acquired—before the transition to the market economy—some experience with management consulting and in-house management training in Estonian consumer cooperatives, fishery collective farms and in some state enterprises that were supervised by local ministries. The knowledge transfer from Western countries to Estonia was easier because general concepts for understanding management were already present before the collapse of the command economy.

## **The Impact of the National Culture on Attitudes Related to Work, Business, and Changes**

The Protestant work ethic learned from foreign rulers from the West has influenced attitudes toward work and the way the Estonians think and express their emotions and feelings. Joy is considered to be of secondary importance (Vainik 2016). There is centuries old saying: “work first, fun later,” which means that fun is allowed only after the work has been done. It is also said by one most famous Estonian novelists, Anton Hansen Tammsaare (1926): “Do your work, then the love will come.” Although Estonia is geographically very close to Russia, Estonians see themselves as representatives of European values. The Estonian language is very different from the Russian language. Estonian identity has been based on the individualism, liberalism, acceptance of law, and free market principles. (Kirch 2002). In the Soviet Union, Estonia was considered to be “the Soviet West.”

During the decades after regaining independence, Estonian identity was influenced by the popularity of information and communication technologies that also offered good incomes for talented young people (Kori et al. 2015). Estonia now has a strong community of start-up entrepreneurs focused on the ICT that has resulted in the development of Skype (Mahroum 2016) and ventures that are essential for advanced

communication networks (Elenurm 2015a). Although Estonians developed the Skype technology, Scandinavians had the leading role in the international commercialization of this technology. During the transition to the market economy, economic relations with Finland and Sweden played crucial roles. Finnish small entrepreneurs were rapid movers to start using the subcontracting services of Estonian privatized enterprises in the 1990s. The Swedish Swedbank and SEB acquired Hansabank after the resources of the young Estonian entrepreneurs to develop this bank that they had created and developed to Pan-Baltic scale appeared to be limited after the crisis at the end of the 1990s.

Finnish people find Estonians collectivistic by nature and Russians consider Estonians to be individualistic (Valk and Realo 2004). As one of the most comprehensive studies of national cultures, the GLOBE study provides worldwide, multiphase, multi-method cross-cultural research data from 62 cultures that represent all major regions of the world. According to House and Javidan (2004), there are two distinct kinds of cultural manifestations—values and practices—and nine core cultural dimensions. According to the GLOBE study, institutional collectivism in Estonia is low: among last 10 countries of 63 (Alas 2006; House et al. 2004). For in-group collectivism, concerning family and friends, Estonia is in the middle group. Start-up culture has created more open communication and a strong networking spirit among young entrepreneurs and business angels than in earlier Estonian business culture. Western business partners have labeled cooperation among Estonian start-ups and their strong presence in Silicon Valley and in other global centers even as the “Estonian ICT mafia” meaning that the network of Estonians is very tight-knit (Bosma et al. 2016).

Several innovative Estonian start-ups have gained recognition in the international marketplace. GrabCad has created a “Facebook of engineers” that makes designing and trading software for 3D printing easy. TransferWise enables cross-border online currency exchange by charging a commission that is much lower than currency exchange costs charged by commercial banks. Pipedrive offers new systematic and visualized tools for customer relations and sales process managers. Newcomers such as Deekit develop applications for virtual whiteboards applied by online teams. Among start-up entrepreneurs, there are more females than a few years ago.

According to the GLOBE study, Estonia highly values gender egalitarianism: It is in the first group. At the same time, although females dominate among university students and are well represented among middle-level managers and the Estonian president elected in 2017 is female, there is still a “glass ceiling” inhibiting the access of females to top management jobs and the salary gap between male and female salaries in Estonia is among highest in the European Union (Anspal 2015).

As concerns uncertainty avoidance values, Estonia is among last third of countries. Concerning the real situation, Estonia is in 35th position. This statistic indicates less need for detailed planning and more spontaneous change and adaptation. Estonian economic transformation has proved that Estonians are good at adapting to rapid institutional changes. In business negotiations and division of responsibilities, however, they tend to prefer an agreement that would lead to a clear understanding of responsibilities and an activity timeline. That tendency reflects a German influence on the Estonian mentality over 700 years.

As to future orientation practices, Estonia holds the 15th position among 63 countries. This statistic reflects the degree to which a community encourages and rewards future-oriented behaviors, such as planning and delaying gratification. Resulting from the Soviet experience of formal command economy and the planning and turbulence of the business environment during economic transformation in the 1990s, there is some skepticism toward long-term planning among business leaders. Our action learning experience with international student teams that have done project work for start-ups interested in entering foreign markets (Elenurm 2015b) indicates that the best planners in such teams are German students. However, Estonians are still more future oriented and systematic in their project work and learning efforts than students from some southern European countries.

According to performance orientation practices, Estonia belongs to the middle group of the GLOBE survey. The Estonian mentality encourages and rewards innovation, high standards, and performance improvement. At the same time, Estonians are rational and calculating in their performance-driven activity. An Estonian saying is: “Seven times measure and one time cut.” During the turbulent business environment of the 1990s, this mentality was in business discourse sometimes contrasted with the entrepreneurial first mover, advantage seeker

mentality labeled as “shoot first, then ask.” This expression meant rapidly grasping new business opportunities without time-consuming analysis of potential problems. Some similarities can be found between this practice and contemporary lean start-up practices although validation of clients and business models by present start-ups is more advanced than the testing of market economy chances in the 1990s.

Concerning assertiveness practices, Estonia belongs to the middle group. People in Estonia are encouraged to be more assertive, aggressive, and tough in social relationships than they actually would like as individuals. Estonians are in their collective self-reflection characterized as not assertive enough to sell their ideas or products. There is a popular joke explaining how an Estonian salesman is “aggressively” waiting for phone calls from clients instead of actively calling potential clients.

Estonia is not considered to be the most passionate and extraverted nation. Even when people want or desire something very much, they do not show it. Estonians are taught not to express strong emotions. To envy somebody is generally considered negative, but in case it encourages people to achieve something, this is to some extent accepted in society. Worrying could be the trademark for Estonia: In Estonian language, even the word “worrying” is—as a verb—attached to very many positive activities, including buying goods or giving birth. There is also another old Estonian saying: It is better to fear than to regret. Being thankful is very important, but pride is not a good thing to demonstrate. This fear is a powerful tool for managers to use—especially because of our history under the totalitarian Soviet Union, where people were expected to live in fear. Although Estonian literature from the nineteenth century indicates that Estonians like to make jokes about themselves, it also warns people not to be foolish and silly (Kreutzwald 1923).

## **The Impact of the Way of Thinking on Managing People and Doing Business in Estonia**

In order to understand how people are managed in a country, people and task or performance orientations of decision-makers have to be understood (Johnson 2014; Svensson et al. 2015). The most independent decision-makers belong to the group that started their careers

during the most turbulent period from the second half of the 1980s until 1995, when the old institutional system was first challenged, then destroyed and replaced with a different system. In decisions concerning the benefits of change, this group of people relies purely on the task orientation of organizational culture. The reason for this phenomenon may be that there was no one to rely on, because Estonian society was moving in the direction of the unknown. Management by objectives and results is popular in Estonia but employees may need more support and coaching by their superiors than in the Nordic countries, where management by results has a longer tradition. At the same time, trade unions in Estonia are weak compared to the Nordic countries where, in some cases, it enables broader application of result-based salary systems.

People who started their careers after 1995, when the situation had started to stabilize, rely on both task and relationship orientation. They can ask for information from their colleagues who have already had experience in the recently developed market economy. Managers could consider this difference in the attitude forming process in managing change (Alas and Vadi 2006). Analyzing two time periods, it can be concluded that according to the interviewees, these periods 1995–1999 and 2000–2004 presumed different types of top managers purely due to objective requirements. All in all, we can describe the type of top manager that corresponds to either period: In the 1995–1999 period, we can view the top manager as a developer and in the 2000–2004 period mainly as a maintainer (Alas and Tafel 2008). Thus, top managers in the 1995–1999 period were valued if they were well-connected individuals, “launcher-types” with a strong business sense, tough, and possibly even ruthless. A manager with a strong social dimension would not have been favored. On the other hand, in the 2000–2004 period, a top manager needed to have had experience in a free market economy, have values (including the so-called soft values), education and erudition, an ability to operate within the limits of certain set rules, good administrative skills, strong verbal skills. He should not be too headstrong and must be capable of cooperating and managing processes. Top managers are also expected to have interests and hobbies outside their work. The appreciation of social or so-called soft values (humane attitudes, emotional intelligence) has been increasing and the managers believed that

this rising trend would continue in the future (Alas and Tafel 2008). When cooperating with Estonian managers and entrepreneurs, it would be useful to understand, when they started their career and how the first years of their career influenced their orientations as decision-makers. As Estonian entrepreneurship is young, both entrepreneurs and managers tend to be younger than in market economies, where large private companies have continuity over many decades. They are often more rapid in decision making than their older colleagues in the Nordic countries.

Connections between organizational culture and organizational learning also differ between cohorts that started their career at different stages of social and organizational transformation. One group commenced work during a time when new institutional settings, which allowed more autonomy, were added to a previous command economy institutional system. This opened new possibilities for the individuals to be active and entrepreneurial. Our survey indicates that individual learning in this group could be predicted by task orientation of organizational culture only. Collective learning in this group depended on relationship orientation as well and was consistent with previous organizational learning theories. In the other group, where people had started their careers earlier—during the period of stabilized institutions in the Soviet time—the results were different: Only relationship orientation could predict both individual and collective learning in this group (Alas and Vadi 2006). Also, differences concerning ethical values were found in different age groups. In the younger group, between 20 and 24, the pay and fringe benefits predicted ethical values. In the age group from 25 to 29, promotion opportunities predicted how important they found well-established values and ethics. In the group between 30 and 34, their competence in management predicted ethical values. From 35 to 39, following the facets of job satisfaction predicted ethical values: work load, length of working time, training and retraining, and relationships with boss. In the group from 40 to 44, following the facets of job satisfaction predicted ethical values: trust between managers and employees, promotion opportunities, training and retraining, relationships with boss and business information provided by management (Alas 2005). Differences in values and motivation patterns have to be taken into consideration by leaders in order to motivate both the young generation

and older employees. An active role of persons at retirement age in the job market is important in countries that have an aging population, including Estonia.

Comparative research in the three Finno-Ugrian countries, Estonia, Finland, and Hungary indicates that Estonia is moving from business survival mode to addressing more explicitly corporate social responsibility concerns (Alas et al. 2013). According to the corruption perception index of Transparency International (2016), Estonia is the least corrupt country among the former command economies that have gone through a transformation to a market economy. Finland has the third rank and thus belongs to three least corrupt countries in the world. The global rank of Estonia is 22nd and the rank of Hungary is 57th. Corruption has in recent years still been an issue in the relations of managers of state-owned infrastructural companies such as the Port of Tallinn with politicians and in relations of some municipalities with private utility companies.

In the Global Entrepreneurship Monitor (GEM) 2012–2014, Estonian surveys have demonstrated the role of team-based co-creative entrepreneurship and open innovation in developing ambitious internationally oriented entrepreneurial initiatives but also the networking needs of early-stage entrepreneurs. Entrepreneurs that have international growth ambitions and an innovation focus often rely on knowledge sharing with people arriving from other countries (Venesaar et al. 2014). Estonian entrepreneurs and managers need to expand their cross-border networks in order to gain more global business experience and not be locked into the role of subcontractor for large companies of Nordic countries or Germany.

The role of the entrepreneur in shaping the core competence of an organization through participative knowledge sharing or in a more individualistic way depends on his/her entrepreneurial orientation. Surveys among young entrepreneurs and potential entrepreneurs have demonstrated the increasing popularity of innovative and co-creative entrepreneurial orientations compared to imitating business ideas from more advanced market economies. When managing changes in the context of entrepreneurial business ventures, there is, however, more support for



co-creative actions during the business opportunity identification stage than for applying co-creative principles during the business development and implementation stages. It is important to anticipate in a specific change process the type of conflicts of interest, corporate governance problems, and potential resistance to changes that such discontinuity of orientation can produce between different stakeholders, including founders of the new venture and investors in Estonia (Elenurm 2012).

Comparative research on perceptions about features of successful entrepreneurs has revealed that although Estonians have experienced radical changes in their business environment, being a risk taker has a higher value for US respondents than for respondents in Estonia. Successful entrepreneurs in Estonia were not seen by entrepreneurs themselves as ideal personalities that always embody socially acceptable role models and avoid conflicts. US respondents gave higher value to features that reflect human relations and being an authentic leader: being sincere, compassionate, and spontaneous. Resistance to stress, having family links and being well connected had a higher value for Estonian respondents than for respondents in the US. Images of successful entrepreneurs in the Estonian way of thinking include to some extent contradictory features, such as being well connected, having political links, and, at the same time, being self-sacrificial, willful, and never yielding in the face of failure. In the US, positive attitudes of entrepreneurs and continuous learning were stressed while in Estonia negotiation skills were attributed to successful entrepreneurs (Elenurm et al. 2014). This focus on the negotiator's abilities can be interpreted as an implication of heavy dependence of this small, open economy on foreign trade and negotiation with foreign partners. However, focus on negotiation can also reflect the perception that the entrepreneur is more an opportunistic deal maker than a person driven by self-development. Business opportunity awareness has been an important feature of entrepreneurs in Estonia, taking into consideration rapid institutional and market changes in the transition process to the market economy. The recent technology-based start-up boom in Estonia may be reflected in the relatively high ranking of innovativeness in this country, when assessing success factors of entrepreneurs.

In the Estonian language, there are two words that are related to using business opportunities. Entrepreneur in the Estonian language is “ettevõtja,” in direct translation a person that undertakes something, tries to accomplish something. This term has a mainly positive connotation. Another term “businessman” is translated to the Estonian language as “ärimees,” a man that is a dealmaker. These two terms may in some discourse reflect the tensions between creating new values and arbitration opportunities. Those that happen to be at the right time at the right place can buy cheaply and sell for a much higher price. The transformation of a society and organizations by its very nature has created many arbitration opportunities, for which rapid access to inside information and negotiation skills are crucial to success. Innovative creation of new value is often more complicated in the situation in which local entrepreneurs lack resources for long-term investments and international marketing experience. Cooperation with foreign investors and international marketers is crucial for Estonia as a small open economy.

When foreign business people set up joint ventures in Estonia or acquire subsidiaries in Estonia, it would be useful to understand the organization and management development priorities and tools of local managers. Research conducted before the global financial crisis demonstrated the popularity of the balanced scorecard, learning organizations, and quality management ideas among Estonian managers sharp decline in popularity of the learning organization and the supply chain practices of Estonian business organization during the financial crises period between 2007 and 2011 (Zernand-Vilson and Elenurm 2010). During the financial crisis, business process re-engineering became more popular compared to other global organizations and management development ideas. The decline of supply chain practices reflects the decline in cross-border subcontracting opportunities during the financial crisis as exporting Estonian companies are not value chain leaders but depend on the outsourcing needs of their Nordic and West-European business partners. During recent years, business process re-engineering has, however, lost its popularity despite its growth trend during the global economic crises and during first years of economic recovery after the crisis. The balanced scorecard and to some extent the quality management

applications have declined during the last ten years. In interviews, managers explained this trend by stating the need to deal with more “soft” leadership practices such as mentoring and coaching in order to reveal the hidden skills of their staff and to better understand their own personal challenges in the present situation, where unemployment has declined and recruiting talented new people is not easy. Many managers have stated that they perceive “packaged” management tools promoted by global management “gurus” as too bureaucratic. They have become, in recent years, more oriented to customized solutions that do not fully follow the concept behind any management idea touted by trainers or consultants. That development has resulted in a changed focus of management training as more companies prefer instead of participation in open training courses in-house training events that are tailored to their specific needs to carry out organizational changes. The Estonian way of management thinking already reflects the need to link personnel management to a focus on business performance in their organization development activities. In order to manage, one has to know “the things” that must be done as well as the people who have to do them. Understanding people means understanding their backgrounds, and from this knowledge, present and future behavior can be predicted. In order to improve leadership skills, learning in the field of organizational behavior, teamwork, self-management skills, and emotional intelligence should be given more importance than previously. Empowering people on the lower levels of the organizational hierarchy and managing cultural diversity in teams is still a challenge for many Estonian business leaders. Estonian managerial identity that would integrate the way of thinking based on the Estonian culture with the best international management practices to gain competitiveness and sustainable growth when developing knowledge-based economy is still in process. Varblane and Tamm (2012) stress the need for small catch-up economies to develop systemic approaches to innovation in order to improve their international competitiveness. Transformation to the market economy is now accomplished in Estonia but changes to become internationally competitive in the knowledge-based and innovation-driven world economy will influence management and business thinking during the coming years.

## References

- Aho, S., T. Piliste, and J. Teder. 1998. *Private Entrepreneurship in Estonia 1989–1996: Experiences and Challenges in a Transitional Economy*, 163. Tampere: University of Tampere (Työraportteja/Tampereen yliopisto, yhteiskuntatieteiden tutkimuslaitos, työelämän tutkimuskeskus = Working Papers/University of Tampere, Research Institute for Social Sciences, Work Research Centre, 0785-2657; 54/1998).
- Alas, R. 2005. Job Related Attitudes and Ethics in Countries with Different History. *Cross Cultural Management: An International Journal* 12 (2): 69–84.
- Alas, R. 2006. Ethics in Countries with Different Cultural Dimensions. *Journal of Business Ethics* 69 (3): 237–247.
- Alas, R. 2007. The Triangular Model for Dealing with Organizational Change. *Journal of Change Management* 7 (3/4): 255–271.
- Alas, R., and O. Aarna. 2016. The Transition from the Soviet Higher Education System to the European Higher Education Area: The Case of Estonia. Interview with Professor Olav Aarna. *Academy of Management Learning & Education* 15 (3): 626–634.
- Alas, R., and S. Sharifi. 2002. Organizational Learning and Resistance to Change in Estonian Companies. *Human Resource Development International* 5 (3): 313–331.
- Alas, R., and K. Tafel. 2008. Conceptualizing the Dynamics of Social Responsibility: Evidence from a Case Study of Estonia. *Journal of Business Ethics* 81: 371–385.
- Alas, R., and M. Vadi. 2006. The Impact of Organizational Culture on Organizational Learning and Attitudes Concerning Change from an Institutional Perspective. *International Journal of Strategic Change Management* 1 (1/2): 155–170.
- Alas, R., M.A. Gaal, C.P. Egri, and D.A. Ralston. 2013. Institutional and Cultural Influence on Managerial Attitudes towards CSR. In *Academy of Management Proceedings*, 2013 Academy of Management Conference, Orlando, USA, August 9–13.
- Anspal, S. 2015. Gender Wage Gap in Estonia: A Non-parametric Decomposition. *Baltic Journal of Economics* 15 (1): 1–16.
- Andréen, T., F. Härvén, C. Jansson, P. Kasimir, C. Lindahl, A.-L. Rundquist, A. Sjögren, and C. Wallgren. 1993. A Case Study in Seven Estonian Corporations. *Transition Studies*, vol. 1. Linköping University.

- Barnowe, J.T., G. King, and E. Berniker. 1992. Personal Values and Economic Transition in the Baltic States. *Journal of Baltic Studies* 23 (2): 179–190.
- Bluedon, A.C. 2000. Time and Organizational Culture. In *Handbook of Organizational Culture & Climate*, ed. N.M. Ashkanasy, P.M. Wilderom, and M.F. Peterson, 117–128. Thousand Oaks: Sage.
- Bosma, N.S., A. Abdul, D. Michael, M. Eltobgy, P. Gratzke, M. Hart, and M. O'Neill. 2016. Europe's Hidden Entrepreneurs: Entrepreneurial Employee Activity and Competitiveness. In: *World Economic Forum*. [https://dspace.library.uu.nl/bitstream/handle/1874/347136/Entrepreneurship\\_in\\_Europe\\_Final.pdf?sequence=1](https://dspace.library.uu.nl/bitstream/handle/1874/347136/Entrepreneurship_in_Europe_Final.pdf?sequence=1). Accessed 26 Mar 2017.
- Clark, E., and A. Soulsby. 1999. *Organizational Change in Post-communist Europe: Management and Transformation in the Czech Republic*. London: Routledge.
- Denison, D. 2001. *Managing Organizational Change in Transition Economies*. Mahwah, NJ: Lawrence Erlbaum Associates Inc.
- Elenurm, T. 2012. Entrepreneurial Orientations of Business Students and Entrepreneurs. *Baltic Journal of Management* 7 (2): 217–231.
- Elenurm, T. 2015a. CASE 10: Modesat Communications OÜ: Riding a Big Wave with a Small Boat. In *Entrepreneurial Icebreakers*, ed. Julia Prats, Marc Sosna, and Sylwia Sysko-Romanczuk, 269–289. London, UK: Palgrave Macmillan.
- Elenurm, T. 2015b. Combining Cross-Border Online Teams and Field Projects in Developing Entrepreneurial Competencies. In *The Palgrave Handbook of Experiential Learning in International Business*, ed. V. Taras, and M. Gonzalez-Perez, 186–201. London, UK: Palgrave Macmillan.
- Elenurm, T., R. Alas, E.J. Rozell, W.A. Scroggins, and C.J. Alsua. 2014. Cultural Prototypes of the Successful Entrepreneur: Comparison of Estonia and the United States. *Journal of Baltic Studies* 45 (4): 499–515.
- Ennuste, Ü., and L. Wilder. 1999. *Harmonisation with the Western Economics: Estonian Economic Developments and Related Conceptual and Methodological Frameworks. Collection of Papers*. Tallinn: Tallinn Technical University.
- Habakuk, M. 2013. Pärastsõjaeegse juhtimismõtte areng Eestis. In *Raoul Üksvärv: Publikatsioonid, organisatsioon ja juhtimine 50, meenutusi algaastaist*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 60–64. Tallinn: TTÜ Kirjastus [In English: Habakuk, M. 2013. The Development of Post-war Management Ideas in Estonia. In *Raoul Üksvärv: Publications, Organization and Management 50, Recollection of the First Years*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 60–64. Tallinn: TTÜ Kirjastus].

- House, R.J., and M. Javidan. 2004. Overview of Globe. In *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*, ed. R.J. House, P.J. Hanges, M. Javidan, P.W. Dorfman, and V. Gupta, 9–48. Thousand Oaks: Sage.
- House, R.J., P.J. Hanges, M. Javidan, P.W. Dorfman, and V. Gupta (eds.). 2004. *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*. Thousand Oaks: Sage.
- Johnson, E. 2014. Leadership Dual Behaviour and Workers' Performance: A People-Task Orientation Model. *International Journal of Innovative Research and Development* 3 (4): 184–191.
- Kirch, A. 2002. Eesti ja Euroopa identiteet. In *Eesti ja eestlased võrdlevas perspektiivis: kultuuridevahelisi uurimusi 20. sajandi lõpust*, ed. A. Valk, 87–101. Tartu: Tartu Ülikooli Kirjastus [In English: Kirch A. 2002. Estonian and European identity. In: *Estonia and Estonian in the Comparative Perspective: Intercultural Studies from the End of the 20th Century*, ed. A. Valk, 87–101. Tartu: Publishing House of Tartu University].
- Kori, K., M. Pedaste, M. Niitsoo, R. Kuusik, H. Altin, E. Tõnisson, and K. Murtazin. 2015. Why Do Students Choose to Study Information and Communications Technology? *Procedia-Social and Behavioral Sciences* 191: 2867–2872.
- Kreutzwald, F. 1923. *Kilplaste imelikud, väga kentsakad, maailmas kuulmata ja tänini veel üleskirjutamata jutud ja teod: kalkuni keelest maa keele tõlgitud ja meie külade komblikuks mõnes tükis ümber solgitud*. 4 tr. Tartu: Eesti Kirjanduse Selts, 84 [In English: Kreutzwald, F. 1923. *Strange and Very Peculiar Stories and Deeds of Kilplased: Translated from the Turkey Language to Our Language and Adapted to Our Customs*, 4th ed., 84. Tartu: Association of Estonian Literature].
- Kross, P. 2013. Tuul tiibadesse TP kateedrist.2. In *Raoul Üksvärv: Publikatsioonid, organisatsioon ja juhtimine 50, meenutusi algaastaist*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 69–71. Tallinn: TTÜ Kirjastus [In English: Habakuk, M. 2013. Impetus from TP department. In *Raoul Üksvärv: Publications, Organization and Management 50, Recollection of the First Years*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 60–64. Tallinn: TTÜ Kirjastus].
- Leimann, J. 2013. Raoul Üksvärv—minu teenäitaja. In *Raoul Üksvärv: Publikatsioonid, organisatsioon ja juhtimine 50, meenutusi algaastaist*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 72–74. Tallinn: TTÜ Kirjastus [In English: Habakuk, M. 2013. Raoul Üksvärv – my guide. In *Raoul Üksvärv: Publications, Organization and*

- Management 50, Recollection of the First Years*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 60–64. Tallinn: TTÜ Kirjastus].
- Liuhto, K. 1999. *The Organisational and Managerial Transformation in Turbulent Business Environments—Managers’ Views on the Transition of Their Enterprise in Some of the European Former Soviet Republics in the 1990’s*. Publications of the Turku School of Economics and Business Administration. Series A-9.
- Loogma, K. 1988. Organisatsiooni kultuur ja edukus. In *Organisatsiooni juhtimise ja majandamise edukus. Vabariikliku teadusliku konverentsi ettekannete teesid*, ed. T. Elenurm, I. Preeks, and E. Terk, 42–46. Tallinn [In English: Loogma, K. 1988. *Organizational Culture and Success. In Success in Managing Organization and Administration. Theses of the Republican Research Conference*, ed. T. Elenurm, I. Preeks, and E. Terk, 42–46. Tallinn].
- Mahroum, S. 2016. Skype in Tallinn, Optimizing the ‘e’ in Estonia. In *Black Swan Start-Ups*, ed. Sami Mahroum, 43–58. London, UK: Palgrave Macmillan.
- Meyer, J., J. Boli, and G. Thomas. 1994. Ontology and Rationalization in the Western Cultural Account. In *Institutional Environments and Organisations: Structural Complexity and Individualism*, ed. W.R. Scott, et al., 9–27. London: Sage.
- Misiunas, R.J., and R. Taagepera. 1989. The Baltic States: Years of Dependence, 1980–1986. *Journal of Baltic Studies* 20 (1): 65–88.
- Nurmi, R., and R. Üksvärav. 1994. *Estonia and Finland: Culture and Management, A Conceptual Presentation*. Publications of the Turku School of Economics and Business Administration. Series A-9.
- Palm, T. 1989. Perestroika in Estonia: The Cooperatives. *Journal of Baltic Studies* 20 (2): 127–148.
- Rajasalu, T. 2001. Convergence in the European Union and Some Guidelines for Institutional Reforms in Estonia. In *Factors of Convergence: A Collection for the Analysis of Estonian Socio-Economic and Institutional Evolution*, ed. U. Ennuste, and L. Wilder, 3–37. Tallinn: Tallinn Technical University.
- Saar, A. 2015. Time to Care About People’s Concerns. In *Eesti edu hind: Eesti sotsiaalne julgeolek ja rahva turvalisus*, ed. E. Raska, and T. Raitviir, 59–70. Tallinn: Eesti Entsüklopeediakirjastus.
- Saarniit, J. 1995. *Eesti noorte väärtushinnangud läbi aegade*. Tallinn: Kultuuri- ja Haridusministeerium [In English: Saarniit, J. 1995. *Value Assessments by Estonian Youth Through Ages*. Tallinn: Estonian Encyclopaedia Publishing House].
- Sahlins, M. 1985. *Islands of History*. Chicago: University of Chicago Press.
- Statistics Estonia. 2017. *Statistics Estonia*. Webpage <https://www.stat.ee/68589>.

- Svensson, S., S. Vinberg, and J. Larsson. 2015. External Workers' Perception of Leadership Behaviour—A Study of Swedish Temporary Agency Workers and Contractors. *Human Resource Management Journal* 25 (2): 250–266.
- Taagepera, R. 1993. *Estonia—Return to Independence*. Boulder: Westview Press.
- Taaler, J. 1995. Economic Reforms: The Main Stages, Programmes and Evaluations. In *Transforming the Estonian Economy*, ed. O. Lugas, and G.A. Hachey, 1–15. Tallinn.
- Tammsaare, A.H. 1926. *Tõde ja õigus*. Romaan. Tartu: Noor-Eesti Kirjastus [In English: Tammsaare, A.H. 1926. Truth and Justice. Novel. Tartu: Young-Estonian Publishing House].
- Terk, E. 2000. *Privatisation in Estonia: Ideas, Process, Results*. Tallinn: Estonian Institute for Futures Studies.
- Transparency International. 2016. Corruption Perception Index 2016. [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](http://www.transparency.org/news/feature/corruption_perceptions_index_2016). Accessed 26 Mar 2017.
- Tuulik, K., and R. Alas. 2003. The Impact of the Values of Top Managers Upon their Subordinates Values. *Journal of Business Economics and Management* 4 (2): 105–114.
- Üksvärav, R. 2001. Management Culture in Estonia: Past and Present Features. In: *Searching for the Boundaries of Business Culture*, ed. A. Suominen, 103–120. Publications of the Turku School of Economics and Business Administration. Series C-1.
- Üksvärav, R. 2013. Ameerika pagas: meenutusi ja ääremärkusi. In *Raoul Üksvärav: Publikatsioonid, organisatsioon ja juhtimine 50, meenutusi algaastaist*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 9–38. Tallinn: TTÜ Kirjastus [In English: Habakuk, M. 2013. American Luggage: Recollection and Notes. In: *Raoul Üksvärav: Publications, Organization and Management 50, Recollection of the First Years*, ed. K. Gerndorf, K. Bobrov, R. Prööm, M. Piik, S. Jantson, and M. Paas, 60–64. Tallinn: TTÜ Publishing House].
- Vadi, M., and H. Roots. 2006. Estonian Organizations—The Subjects for Transformation. In *Estonia, The New EU Economy: Building a Baltic Miracle?* ed. H. Hannulo et al., 189–206. Aldershot: Ashgate. (Transition and development) Hannula, H., Radosevic, S., Nick von Tunzelmann.
- Vainik, E. 2016. *Eesti tunded: sõnaportreed*. Tallinn: Eesti Keele Sihtasutus [In English: Vainik, E. 2016. *Estonian Emotions: Word Portraits*. Tallinn: Foundation of Estonian Language].



- Valk, A., and A. Realo. 2004. *Eesti ja eestlased teiste rahvuste peeglis*. Tartu: Tartu Ülikooli Kirjastus [In English: *Estonia and Estonians in the Mirror of Other Nations*. Tartu: Publishing House of Tartu University].
- Varblane, U., and D. Tamm. 2012. The Development of the Systemic Approach to Innovation. In *Innovation Systems in Small Catching-Up Economies*, ed. Elias G. Carayannis, Urmas Varblane, and Tonu Roolaht, 3–19. New York: Springer.
- Venesaar, U., and E. Vitsur. 1995. Development of Entrepreneurship. In *Transforming the Estonian Economy*, ed. O. Lugus, and G.A. Hachey, 187–207. Tallinn: Estonian Academy of Science.
- Venesaar, U., T. Mets, K. Paes, T. Elenurm, J. Masso, M. Küttim, and P. Konsa. 2014. *Globaalne ettevõtlusmonitooring 2013. Eesti Raport (Global Entrepreneurship Monitor 2013. Estonian Report)*. Tallinn: Estonian Development Fund.
- Weik, E. 2001. Myths in Transformation Processes: Theoretical Interpretation and Empirical Data. *International Studies of Management & Organization* 31 (2): 9–27.
- Zernand-Vilson, M., and T. Elenurm. 2010. Differences in Implementing Management and Organization Development Directions Between Domestic and Foreign Companies in Estonia. *Baltic Journal of Management* 5 (1): 82–99.

# Management in Germany, the Dynamo of Europe

Arndt Sorge

## Management Complexity

Management is a highly evocative term but ill-defined and ill standardized; it requires different definitions from one country to another, and these have also shifted over time. What is the picture for German management? On the one hand, management is a process, of “getting things done through people.” On the other hand, management is a group of people which do that. How is this group of people defined and demarcated in Germany?

The nearest equivalent is *Leitende Angestellte* (leading employees) which occurs in the *Betriebsverfassungsgesetz* (enterprise constitution act) and defines a group exempted of active and passive participation in works council

---

A. Sorge (✉)  
Science Center Berlin for Social Research,  
Reichpietschufer 50, 10785 Berlin, Germany  
e-mail: [arsorge@unipotsdam.de](mailto:arsorge@unipotsdam.de)

A. Sorge  
University of Potsdam, Potsdam, Germany

election, and other regulations of the act, because they have functions of an employer or other functions that are particularly important for the enterprise. Whilst this definition is vague, there is a labour court jurisprudence on it which makes it operational. It is still narrower than in English-speaking countries, or in France where *cadres* is also a more encompassing notion. First, board members and directors (top management) are not included. Second, there is a large class of employees paid outside the ambit of collective agreements (*außertarifliche Angestellte*) which include high-level specialists and many managerial employees that head departments, establishments, works or branch offices. This group of people is by far larger than the group of *Leitende Angestellte*. Beyond that, there are also numerous employees which would be called managers elsewhere but do not have a similar designation in German except in the English version of their business card. These include managers heading plant or office departments, and they would have designations such as *Betriebsleiter*, *Abteilungsleiter*, or other composites finishing with a *-leiter*, which would be translated as a leader but does not emphatically evoke leadership. The *-führer* suffix would be more emphatic but outside the armed forces it has been particular to mines, which have had a specific code of hierarchical comradeship that strictly avoided addressing superiors as “*Herr...*” and only mentioned the function, much like suppressing any Sir or *Monsieur*; the saying was that there are no *Herren* (masters) in mines. Supervising foremen, which in Britain are often called the “first line of management”, would resent being called managers. Foremen, superintendents and technicians, and their clerical–commercial equivalents (*Fachwirte*), and also artisanal owner–managers in Germany would consider designation as a manager as out-of-place in a German context although they would probably not mind them on an English-language business card, in order to be respected by status-conscious foreigners that do not understand the niceties of German social stratification.

In a domestic context, the word “manager” without a translation has thus been used more sparingly, but usage has quite definitely increased. The aversion to using “manager” or “management” in German has its roots in the practice of associating and combining hierarchical authority and specialist expertise more closely. A manager should above all have his or her job because of specialist (technical, commercial, law, administrative) qualification and experience, and because he or she can tell

and demonstrate people under them how to do their job (Sorge et al. 2015: chapter 5). The occupational identity in engineering, sales, law or administration was, therefore, stronger and a manager was expected to lead more than to manage. General management competence below the higher levels was doubted, or conceived to emerge by experience in different functions. Status and authority on an occupational basis were sufficiently prestigious to make status elevation by a managerial job title redundant in a domestic context. On the other hand, many functions which are less hierarchical but specialist are now addressed as management; project management, logistic management, quality management, account management, customer relations management and others immediately come to mind and are used in German versions. People doing that are more and more called managers, although they do not really tell others what to do but exercise authority by persuasion. The international linguistic drift has been to call technical tools management systems, as in the case of flight management systems. “Management” has thus become a very comprehensive and confusing term which only conveys the information that something important is happening, which symbolically lifts the manager above those doing ordinary work. Today, one can find even the designation *Hausmeister* (an experienced worker attending to the tidiness, good order and physical safety of a house, especially with regard to electrical and plumbing installations) replaced by “facilities manager”, to confer prestige.

This chapter deals with people having line authority above the levels of foremen, superintendents and equivalents in services, which includes top management, *Leitende Angestellte* and others with line authority and a budgetary responsibility. This is a compromise between encompassing definitions according to international business card tendencies on the one hand, and the statutory definitions in Germany on the other. I develop the topic by looking at the socio-historical background of management, which leads us to the business and institutional context of Germany in which management activities have been embedded. This takes us into management culture and managerial careers. On the basis of the business and institutional context of management activities, and of management culture, we can then look at management behaviour, i.e. how managers see their role and behave accordingly.

To round off the treatment, I deal with the internationalization of German management within the internationalization of business.

## The Historical Background: Learning from Catastrophes to Create Order

Through the last thousand years, “Germany” has been a blurred and fuzzy notion, and “Management” has become a generally respected notion in Germany only after, roughly, the end of the 1960s. Until 1806, there was a Holy Roman Empire “of the German nation”, a qualification which was only added a few centuries later, and “empire” is not a good translation of the German term *Reich* that has been used in the German language until 1945.<sup>1</sup> The empire (*imperium*, a designation attached to the *imperium romanum* which it was supposed to continue), had semi-independent states, including Austria and Bohemia/Czechia; the most important states in the later empire, Prussia and Austria, also ruled over territories outside the bounds of the empire. After 1813, there was a Confederation (*Bund*) comprising roughly the same states, which was dissolved in 1866 when Austria and Bohemia/Czechia were evicted. This led on to the empire of 1872 that became a republic in 1918, although somewhat reduced in size. But the most turbulent changes were still to come, under nazism with its expansion of Germany by war, first, and then a resounding defeat that led to two states emerging in 1949, a Federal Republic of Germany in the West, with the majority of the population, and a Soviet-dominated German Democratic Republic beyond the emerging “iron curtain” in the East. Communist East Germany started to become economically unstable because of rising oil prices after 1973, not raised by any suppliers in the Middle East but its own communist comrades in the Soviet Union, and because of steadily mounting foreign debt. The demographic—by emigration, after the opening of “the wall”—and financial collapse of East Germany in 1989 then led on to its integration into the Federal Republic, the most abrupt, rapid and thorough regime change from a socialist command economy to a capitalist market economy experienced

anywhere in the world. It presented not only a political and economic but also a management challenge of the first order.

Much as the adjective “German” evokes Germanic descent of the population, and German clearly is a Germanic language like Dutch, Swedish, Norwegian and Danish, it is a safe guess that about one-third of the German ethnic heritage is Celtic, one third Germanic and one third Slav—Polish and Czech, and also other Western Slavonic cultures that have more or less disappeared. The Holy Roman Empire and its successors were a melting-pot on a par with other countries proud of this epithet. Something approaching a German political identity came about in the tenth century, after divisions of the Frankish empire that had comprised just about the same territories as the original European Economic Community. The division led to a realm “of the Franks and Saxons”, in which many residents spoke a Germanic dialect. Much as present-day Germany is styled as a well-ordered and stable country by residents and foreigners alike, this is certainly not because of any unbroken cultural continuity in this respect. Quite to the contrary, Germany has been both, the object and the perpetrator of the most massive, devastating and bloodthirsty upheavals in Europe, with the exception of Poland more recently. The German penchant for order is also a reaction to catastrophes, learned over centuries. Historians suggest that the modernistic and radical striving for order, with the cultivation of discipline and education, came up in the mercantilist economies after the Thirty Years’ War (1618–1648), as rulers in charge of the different states made an effort to repopulate their countries and renovate and build up farming, commerce and manufactures. The War had led to a loss of about 40% of the population, through not only killing in battle but devastation of the towns and the countryside, and the resulting starvation and epidemics. It set an unbeaten record in a larger European country, regarding the relative amount of death and destruction, one which has been formative for German culture and institutions.

The heritage with regard to economic institutions from the Middle Ages and early modernity is a society very much divided into provincial states with their own customs, laws and economic governance. Older Germanic patterns of rule and policy-making by the “peers”, free men

in a locality, had transmuted into town government by guilds instated by a royal or local ruler, and countryside government in many forms, but usually under a nobleman. In Germany, feudalism had developed into regional autonomy under princes and free towns. Before the Napoleonic wars, there were hundreds of territorial entities with their own government, laws, and customs and excise regulations to match. At one end there were governing “foundations” (*Stifte*) and imperial free towns (*freie Reichsstädte*), at the other were larger entities such as the kingdoms of Brandenburg-Prussia, Saxony and Austria-Bohemia. Much like governmental feudalism, land tenure in villages was also a confusing patchwork of ownership and dependencies. Other countries have also had guilds, aristocrats and associated forms of rule. The distinctive characteristic of Germany is the pervasive link between guilds and local or regional government, facilitated by the increasing subordination of towns to princely rule, with the exception of the Hanseatic free towns of Hamburg, Bremen, Rostock and Lübeck and a few remaining free imperial towns such as Frankfurt, the most important one which also had the privilege of hosting the coronation of a king. In German social structure, there came to be a remarkable fusion of the more hierarchical and the more participative (in councils, guilds, estate representations and their fiscal committees) elements of economic and political governance. And this happened under fairly provincial auspices, in a confederation which had no capital apart from Vienna as a *de facto* centre, because princes in the Habsburg dynasty were by tradition elected to the emperorship since the late Middle Ages.

Such characteristics at the turn from the Middle Ages to modernity, around 1648, formed the foundation of what developed in the German political economy and also in enterprise management. The South, through the trade links with Italy, and territories along the Rhine River, were more developed but also rather chaotically split up into smaller entities. This was where the division of property among the members of a family, in the case of death of a family's father was prevalent, and where subsistence farmers were often compelled to make a livelihood in artisanal work. The North was more quiet, apart from the ports along the North Sea and Baltic shores. As a rule of thumb, one might say that artisanal and early industrial dynamism occurred where natural

resources (coal, metals, salt) gave an impetus, and where the country was agriculturally poor. An exemplary case is the mountains around Bohemia which had a pioneering industrial development in Saxony and Bohemia. Particularly in the Southwest, craft and industrial development happened in territories where the soil was poor and subdivision of farms upon inheritance prevalent. On the whole, it is also striking how commerce and industrial development coincided with the establishment of Protestantism after the Reformation which, incidentally, has its fifth centennial celebration in Germany at the time of writing this. Not even Max Weber had expanded on this correlation.<sup>2</sup> Eastern Westphalia, the former county and duchy of Berg, the Siegerland, Saxony, Thüringen, Central Franconia and Württemberg, like towns in most areas, went over to Protestantism, whilst areas close by that were not ethnically and culturally much different remained more traditional in both religion and economic activity. Even Vienna went for the Reformation, but the Catholic roll-back took many towns and territories back to Catholicism. The relationship is based on an interaction between social emancipation through entrepreneurship and protestantism which is still far from sufficiently analysed.

The religious segmentation of Germany confirms the general picture of a very localized and regional patchwork of economic governance and political government, such that patches of modern development were distributed across most of Germany, except many northern and eastern parts off the beaten tracks of trade routes, of which there were many. Germany was after all in the centre of Europe and had many of them on rivers and on land. Much of the older and more extreme patchwork of government and economic governance was reduced greatly when Napoleonic France confronted powers in the Holy Roman Empire one after another, but also in alliance with one or more of them. This led to a consolidation of states, also beyond the defeat of Napoleon. Of even greater importance was the customs union of 1833/34 which did not have Austria as a member and, in a way, prepared the later exclusion of Austria and Bohemia from the emerging national confederation of 1872. Yet, the pluricentralism of Germany remained, although the kingdom of Prussia now had half of its population, but Prussia was economically very heterogeneous and did not have one economic centre



of gravity. It had advanced provinces in the west, in parts of Silesia and in Berlin, but also less developed ones in Brandenburg and further east. Also, the distinctive regional corporatism of conjoined government and economic governance at a provincial level remained, despite waves of economic liberalization. The most advanced state in Germany throughout the nineteenth century, the kingdom of Saxony, was even a hallmark of liberal trade and technical advance combined with corporatist-royal government, a case which according to liberal economics textbooks should not have been sustainable. Lehmbruch (2001) showed how trade liberalism and nonliberalism (corporatism) in corporate governance entered into different combinations in German states in the nineteenth century.

## The Emergence of Entrepreneurship

Much as corporatist regimes are often castigated for restricting free enterprise and market development, and the tensions in this respect are visible in Germany, there is one thing they have to be credited with: They supported a development of human resources in schools, colleges and vocational training, and they also aided capital formation and infrastructure development. Probably more than any other country in the Europe and the America of the time, Germany had a focus on what is now called human resource development from the bottom up, to the extent of creating “reserve armies of labour”, as a foundation of industrialization. There has been a dominant policy of creating a surplus of qualifications, rather than restricting apprenticeship and other training places as happened in Britain. Today, in politically correct retrospect, the empire at the turn from the nineteenth to the twentieth century is often painted as dominated by retrograde romanticism, capitalist exploitation, militarism and a big-mouthed emperor to fit. But it was also the most institutionally creative moment that Germany and probably Europe had. It combined institutions of provincial economic governance by guilds with the creation of technical universities and colleges, higher commercial education, funding of concentrated fundamental research and, last but not least, obligatory health care, unemployment

and old-age pension insurance, as well as emergent collective bargaining. Interestingly enough, the social security regulation emerging was developed on the model of former Prussian state mines, after these had been privatized.

With regard to the management of enterprises, an important factor in all this was that higher education became highly vocationally oriented and often continued earlier training in vocational apprenticeships. This prefigured the importance of specialist careers and training in and for management, and the subdivision of management into separate technical and commercial departments and roles. Management generalism was reluctant to emerge, and mostly so only at the top of enterprises in boards. There was also a persistent streak of paternalism, as in many other countries at the same time. An influence to some extent contrary to the artisanal and guild traditions with their pre-modern and less capitalist characteristics, was particularly strong in the North of Germany, with the militarist veneer in organizing: detailed rational planning, formal personal relationships, disciplinary rigour and meticulous “work study” of movements involved in e.g. the handling of arms. In the Prussian army, this pre-dated Frederick Winslow Taylor by about two hundred years, such as in the detailed analysis and drill of movements in the handling of front-loading rifles, to increase the rate of fire. The South of Germany was less militarized and more subject to provincial guild traditions, whereas the North had by 1866 come under Prussian government and both, economic liberalism and state influence. What at first held Prussia together after 1813 were not politics, law and socio-economic institutions, which were all different from one province to another, but the army and a dedicated civil service.

Especially after the impact of the Napoleonic wars, the penetration of military postures into the civilian population was particularly marked in Prussia. It is noteworthy that Prussia was after 1813 the first European country to have compulsory military service for everyone, without exception. In the neighbouring countries that had conscription, the better-endowed classes had the opportunity to liberate themselves from it by paying a volunteer to replace them. That was anathema in Prussia after 1813. Consequently, managerial and supervisory employees inevitably had army experience, were often reserve officers and former

non-commissioned officers, and to some extent, they transferred the rigour and discipline into a civilian setting. Notably in public administration and public enterprises such as utilities, provincial insurance establishments and even schools, former professional military personnel with sixteen years or more of service experience were by regulation preferred in recruitment and appointments. Between 1813 and 1864, however, the Prussian army was not involved in any war, contrary to the armies of other European powers that were ceaselessly fighting smaller wars, mostly on the fringes of Europe and beyond, with professional rather than conscripted armies.

In the new German empire after 1872, the two sources of management inspiration now came together and fused: the craft-and-guilds nexus which was particularly marked in Saxony and the South but became established more widely in the countryside, merged with the liberalization of trade and commerce that did away with privileges, and the militaristic infusion of rigour and discipline that again extended everywhere by 1872. There was a fusion of learning, discipline and rigour, which also incorporated devolution of decision competence to lower echelons, and the concomitant flexibility. This was partly artisanal, of course, but also incorporated lessons of what was termed *Auftragstaktik* in the Prussian army after about 1820, and this was reinvented or taken up by Peter Drucker—an Austrian refugee from Germany—more than a hundred years later when he propagated “management by objectives”. It is this fusion of contrary behavioural repertoires and organizing traditions that was intensified by the massive challenges to come: mass mobilization and a war economy management on an unprecedented scale, in two successive world wars, against the major powers in the world at the time combined. The organizational and management lessons learnt during these pernicious fifty years again boiled down to a combination of the skills involved in the management of mass-scale processes and events under considerable duress, with those involved in the flexible and responsible handling of specific requirements. This coincided with the combination of intellectual effort with physical labour, and it was also orientated by a more philosophical concern of reformists in Germany, to counteract the drifting-apart of “theory and practice”: each of them had to learn from the other.

Generations of vocational education reformers, in particular, have made this their concern, by improving the mixing and the coordination of training at work and at schools and colleges.

## Consequences of the Last Catastrophe and Turbulent Unification

The last challenges of managerial effort following this logic which, as we have seen dates back to the ravages of the Thirty Years' War, were German reconstruction after 1945, and unification after 1990. In his masterful book on managers and management in West Germany, which is one of the best monographs on management in a country, Peter Lawrence (1980; 2017) rightly takes the situation in the second half of the 1940s as a point of departure. The formative influences relate back to earlier German catastrophes and how they were overcome: during World War II, much of the industrial capital had been destroyed, the civilian economy was at partial and the war economy at a complete standstill, twelve million Germans were expelled or fled from the eastern territories that were given to Poland and the Soviet Union, millions of soldiers were demobilized or came out of prisoner-of-war camps, and seven million "displaced persons", mainly prisoners of war and workers that had done forced labour in Germany, had to be repatriated. Germany again had a world record breaking period of devastation and disorder in every respect. Literally dozens of millions of German and foreign people were moving about, without a job and often not any home to go to. Housing people and finding a job, often for former soldiers and civilians that were mutilated, injured and starved, was a huge challenge. This was not only but very much a management challenge, which involved a great deal of "public-private partnership" and drastic measures such as compulsory administration and allocation of all private accommodation. But after the founding of the Federal Republic in 1949, under the liberalizing influence of the USA and that of the first Minister of Economic Affairs, Ludwig Erhard, Germany had much less state influence on enterprises and publicly owned enterprises than both Britain and France. Federal (Western) Germany moved from a

command-and-control war economy to a liberal economy in a matter of five years.

Lawrence rightly pinpointed the origin of many fundamental orientations in this period, all boiling down to materialism and a reinforced cultivation of the value of “making useful things”, as something not only immediately required but a promising national economic pre-occupation to take the place of the inhuman and disastrous venture imposed by the nazis, to colonize the east of Europe and become a “master race”.<sup>3</sup> The economic and social reorientation again led to high social valuation of engineering and chemistry, and a focus on what was urgently or immediately required to rebuild a devastated country and safeguard material existence and basic health standards. This also generated a continuous fascination with practical and tidy organizing in all places. At a time of extreme disorder, all the organizing and managing elements of occupations were respected and cultivated, in engineering, in the commercial functions of enterprises, in public administration, in trade unions and even in private associations such as sports clubs. But the word “management” and the idea that this expressed valuable and respectable general ideas on how to run enterprises and administrations, across occupations and functions, did not yet occur. Organizing skills started at the bottom, with the workman who knew how to keep his tools in a tidy order and how to “organize” (procure) supplies that were late or deficient. It was a mundane notion that applied to almost everyone, and a number of accounting and planning tools were widely cultivated in existing professions. The banality of everyday management in this sense did not qualify the term as a mark of distinction.

The next critical historical juncture along similar lines, although much less catastrophic, was German reunification in 1990. The German Democratic Republic collapsed economically and politically after Hungary made its border with Austria permeable and the Berlin Wall came down in 1989, and the East German states established in 1949 were reinvented to join the Federal Republic on October 3, 1990. How to convert a socialist command-and-control economy of 16 million inhabitants dominated by large industrial combines and an overblown security apparatus, into a capitalist social market economy dominated by small- and medium-sized enterprises (SMEs), was another daunting

challenge in the political arena, and it was also very much managerial. Without going into how this happened, suffice it to say that the transition was more successful than many realists could expect at the time, involving again not only rule-making and daunting subsidies<sup>4</sup> but intense pragmatic cooperation between East and West, not only from the top down but from the bottom up, in and between enterprises and governments, voluntary and corporatist organizations, down to local fire brigades and hospitals. Again, the challenge was one of combining mass mobilization and standardization skills on the one hand, with flexible diligence adjusted to locally pressing requirements on the other, at a very rapid pace and with scarce resources. No other country has remotely done something like it.<sup>5</sup>

## The Business and Institutional Context

Management is oriented by business and administrative goals and both constrained and facilitated by social and political institutions. An important approach to describing and explaining management is, therefore, to look at social institutions, in conjunction with the particular sectoral–industrial structure, business models and economic strategies management deals with, in a country. Business models and economic structures also tend to have an institutional character. The most outstanding contribution in this respect, with regard to Germany, is by Wolfgang Streeck (1997). German capitalism, which has been created by management over time but has also guided management practice, following this author is quite distinctive; on the one hand Germany is internationally very open indeed, compared to the United States and Japan; it has a significantly larger importance of both, exports and imports, related to the Gross National Product; that makes Germany appear like a smaller European country although it is by population (above 80 million), and even more by national product the most important country in the European Union and a top-ranking economy in the world.

Roughly since the end of the nineteenth century, Germany has been the leading country where the size of the industrial sector is concerned.

Although industrialized countries have all seen deindustrialization and the increasing importance of the service sector, Germany has kept a front position in the industrial league tables since. This is the corollary of the high importance given to engineering and the applied sciences in education and training, in the pecking order of the social status ladder, and in management. This tendency also reflects what was mentioned in the previous section, about the value of “making useful things” at the catastrophic moment in German history, notably the last moment after WW II when established elites in the military and government services were discredited. Especially going for export performance was the central policy element in the action of governments, employers and unions alike, in order to combat massive unemployment and poverty. This set the scene for management policies for decades to come, and it has prevailed until the present day.

Whereas larger industrial groups from Germany are well known, their role in the national economy is smaller than in comparable countries. A rather stable finding over the years has been that Germany has lots of SMEs, but many of these are larger than those in other comparable countries. This sounds confusing at first, but it expresses in which way the SMEs became important. One aspect is that they are in specialized products, which keeps a check on size, but they also produce for larger international markets and achieve economies of scale to some extent, which gives them a larger size than foreign competitors may have. Especially more recently, the term *Mittelstand* has been popularized also in the non-German press to characterize such firms, and to emphasize that they proved resilient to the recent financial crisis 2007+ and a source of stable economic performance, notably export performance. *Mittel* means “medium”, as might be guessed, and refers to both, medium size and being “in the middle”, between large enterprises and a rather fuzzy contrary term; below large firms, every non-large enterprise, professional practice or shop can claim to be part of the *Mittelstand*. *Stand* means, literally, “estate” in the sense of the old English term “station in life”. *Mittelstand* is thus rooted in both, social stratification and economic structure. It conjures up both self-employed professionals and small handicrafts firms, and also medium-sized owner–managed firms. It evokes the personal control of enterprises and

sets a counterpoint to the anonymous control of the stock market. Such firms may have more than a thousand employees and they are often multinational, having subsidiaries with more than sales and maintenance functions abroad. The type of manager cultivated in such firms is more sober, more attached to the product as creating the identity of the firm, and less given to the self-presentation rituals that came up in the heyday of financial capitalism.<sup>6</sup>

The distinctiveness of such firms is linked with another finding that has been stable over the years: Never mind the spreading of financial capitalism over the years since the 1990s, Germany has always had strikingly fewer joint-stock companies, less of them are traded at the stock exchange, and they have been less important for domestic employment than in comparable countries such as the USA, Britain, France and Japan (Sorge et al. 2015, chapters 6 and 11). In both *Mittelstand* and large firms, management policies have for a long time been marked by the following logic: To be competitive in goods markets, and in order to win market share, top management has been conservative regarding equity capital issue. Conservative equity capital avoids “dilution” of dividends or distributed profits and makes it possible to avoid uncompetitive pricing of products. The latter is the risk when a firm has to generate the high-profit margins which are needed in order to distribute satisfactory profits over substantial equity. The risk of conservatively small equity, on the other hand, is to invite a takeover bid; this risk is controllable in firms under personal ownership, as long as owners do not sell shares. In joint-stock companies whose shares are traded at a stock exchange, the risk of takeover bids is however omnipresent when markets sense that a firm is undercapitalized. Thus, top management has usually tended to avoid exposure at the stock exchange, fearing the instability and possibly loss of control ensuing upon takeover bids or a slide of control towards outside controlling majority interests.

A complementary element is thus stable capital ownership in predictable hands. By financing investment out of retained profits or by bank loan, from “house banks” working with client firms, the latter have thus assured this stability. The logic of this policy is certainly capitalist because it follows the interests of capital owners. But it is not financial-capitalist, because it works against shifts in controlling interests



facilitated by an anonymous stock market. Despite the tendency to mark assets and liabilities “to market” that has taken hold in international accounting reforms, there has been an aversion to considering every kind of asset as in principle tradeable. This is part of the long-term view in capitalism, meaning that long-term development of a firm under stable auspices of controlling ownership, and foregoing maximization of short-term gains, is the highest priority. “Patient capital” interested in long-term development has been ascribed to German investors and investors into Germany. This interest in stability may sound very German, but things are not that simple. The view also reflects the trauma of stock market crashes and economic catastrophes over time which, as we saw, were never purely economic.

Both capital ownership and labour have metaphorically been considered, by German management, as assets that may potentially also represent liabilities—although technically equity capital is, of course, a liability on the balance sheet. Why capital assets may be liabilities was explained just above. For this reason, in a German management perspective, top management has every interest in keeping equity stable in hands that are predictable. The same applies to labour. Labour may also be unpredictable and potentially harmful in a management view. In its own interests, capital owners and management have thus sought to assure a loyal and committed work force, beyond the more opportunistic interests implied by the “wage nexus” between employees and a company. On the one hand, this has implied employment stability, occupational training and career development. But it has also implied the involvement of employee representatives and trade unionists in co-determination and to some extent even co-management. Note that this has not meant the absence of class conflict at certain points in time.

## **Conflict and Cooperation**

Germany has seen a combination of conflict and cooperation. This requires an explanation, and once again it is intensely historical. Germany and Austria are distinctive for having lost two world wars,

with disastrous consequences, more for Germany and less for Austria at the end of WW II. Now, obligatory works councils and representation of employee representatives on company boards were most clearly related to the thorough discrediting of established governmental and business elites at the ends of the world wars. In a revolutionary or quasi-revolutionary setting, institutional concessions to labour were much more likely than in war-winning countries. The most exemplary incident is the case of co-determination in Germany generally, and most spectacularly and quite differently from the way imagined abroad, in the coal and steel industry in Germany post-1945. The Allied military governments and especially the British military government in the British zone of occupation, which had the major coal-and-steel region, the Ruhr, were keen to politically neutralize the coal and steel barons that had, it was argued, made possible the rise of the nazis and fuelled the war effort like hardly any other. The quasi-monopolistic chemicals group IG Farben had been taken apart, the armaments and aircraft industries in Germany had been dissolved or converted to civilian purposes, so what was left of the “dangerous” industries was coal and steel.

In the political climate prevalent in Britain at the time, under a Labour party government, nationalization was definitely an option, as it was implemented under the National Coal Board in Britain. German coal and steel company owners could not bank on generous terms of expropriation, at that time, and they were—remember—patient capital. They thus went to the industrial trade union and suggested that the powers that be in the political arena might be persuaded to accept full parity of employee representatives on supervisory boards, if the unions were supportive of this, with their less tarnished political record under nazism. And so it happened, by an act of law supported by both major parties, in 1950 immediately after the Federal Republic was founded. Employee representation was also extended in “normal” joint-stock companies, as was co-determination by works councils in all the work places with more than five people employed. Co-determination was later extended for supervisory boards of all the larger joint-stock enterprises, to near full parity of capital with labour, in 1976. In addition, collective bargaining was established mainly at industrial-regional levels, “taking

wage costs out of the competition” and giving about three-quarters of the labour force collective agreement coverage, although mainly because the employing firm was a member of an employers’ association.

As Streeck (1997) explained, all this not only assured minimum standards and less important wage spread (inequality between high and low wages), it also made labour a factor of production that was not opportunistic but interested in the survival and development of firms and the general well-being of the economy. It would probably not have happened if there had not been the career linkages between workers and supervisory management, the fact that even higher managers had also frequently undergone worker experience and served an apprenticeship, before setting out on college or university studies and eventually managerial careers. That had prepared labour and managers to see each other’s point, especially under the dire predicaments of the war experience and the dismantling of equipment left over from the bombardment, by all the victorious powers. But the fact remains that co-determination, although it was a political gift to the unions at a time when the employers were politically as weak as can be, also later turned out to be a boon to employers and management. Whenever there were systematic studies, the extent of co-determination was shown to facilitate strategic decision-making in supervisory boards. And although strike activity has been extensive at times in Germany, much against the image of a docile labour force, systematic collective bargaining in Germany has turned out to be more respectful of macroeconomic constraints than in other countries except Austria and Switzerland, more than in both, countries with higher unionization ratios and lower unionization at the time.

It is important to recall this in detail, at a time when business and management studies have reduced the attention given to industrial relations, after the more one-sided fascination developed in “human resource management” and the invention of “employment relations” or other understatements for collective interest representation and collective bargaining. The latter have not simplistically brought industrial peace closer and made labour more predictable and responsible, in the sense of pliable in the hands of management. Together with German-type occupational careers systematically linking and overlapping areas of employment that tend to drift apart under those institutional forms

of capitalist development that emphasize the extraction of relative elites and de-emphasize the knowledge of direct and notably manual work, co-determination and collective bargaining have made a change from the age of Taylor and Ford possible, a change in which new management strategies came forward.

## Periods of Growth and of Shocks to Management

The immediate post-war boom had above all seen the rise of mass production industries, not only in Germany, where the term *Wirtschaftswunder* (economic miracle) was coined to describe an upswing above the European average, which was also understandable in view of the “base effect” of growth starting almost from close to zero and currency reform. Such mass production industries were also to some extent focussed on the generic quality of products, in the traditional export goods such as cameras and optical equipment. Product quality again became a pillar of strength, also in other export industries, and this went together with the importance of engineers not only on the technical side but also in sales and other functions. But the post-war boom period came to an end in about 1973, when currencies were going over to floating exchange rates; the value of the D-Mark continued to rise against more or less all the other currencies except the Swiss Frank and the Austrian Shilling. This went together with the industrialization of the Third World and the rising strength of the Asian economies, and it led to a number of mass production industries becoming uncompetitive in Europe. Textiles and steel were prime examples, but also cars, ships, cameras and optical equipment came under severe competition from Asia. As manufacturing for mass markets left Europe and North America, particularly in Germany because the D-Mark had the highest rise in value, German industry performed a noteworthy structural and management shift from large batch production to customized quality-intensive production, which was more rapid and more systematic than in other countries. This explains why Germany came through the oil and currency

crises of the 1970s better than comparable larger economies. It could buy oil more cheaply than other industrialized economies because a rising D-Mark bought more dollars, but the rising value of the currency also jeopardized exports more than in most countries of competitors.

The management of the crises owed a lot to engineering strength, the qualitative flexibility of work systems due to broader vocational education, continuity of the “qualificational space”, i.e. the linkages between worker and managerial experience, and cooperative industrial relations within enterprises and in collective bargaining (Sorge and Streeck 1988; 2016). Whereas Germany had already emphasized quality production, the customization dimension of quality now became increasingly salient. Steel firms went for special steels and integrated forward into engineering products, car firms greatly increased the individualization of models, and investment goods makers innovated products and processes, such as in the direction of computer-aided manufacturing. In a nutshell, the German economy performed the structural shift more by transforming enterprises technically and organizationally, than by shifting from declining industries to new ones. This eased the pains of deindustrialization.

Unification in 1990 was another shock, and this coincided with the challenges of financial capitalism that had already been mentioned by Streeck (1997) as threatening the consensual corporate governance established, with its extensive and equalizing collective bargaining at the industrial level, interlocking ownership of shares in large joint-stock companies and other practices to control abrupt changes. At the time, Horst Albach, a leading German business administration scholar, in his valedictory lecture even asked if the end of commercial honesty was approaching. Not only was there globalizing financialism, but also a structural shift of unprecedented size, as the socialist economy of the DDR (*Deutsche Demokratische Republik*, German Democratic Republic) with low productivity and antiquated products had to be transformed into a part of the social market economy, implying wage increase beyond all proportions and the massive collapse of firms as a consequence. The massive increase of the fiscal burden to above 50% of the gross national product forced the Federal government to impose equally massive reforms of social expenditure, following a policy of

embracing corporate governance reform and aspects of financialism as a cure, rather than a threat. Among other things, the consequence was real wage stagnation for more than ten years, reduction of collective bargaining coverage, and more company-specific bargaining. Rather than permitting real wage increases and competing on quality instead of price, enterprises now went for restoring and increasing competitiveness on the basis of both, quality and price. The tendency to invest into subsidiaries abroad rather than at home was reversed in about 2005, with multinational enterprises (MNEs) taking work home instead of abroad. This favoured retention and creation of employment in Germany (Sorge and Streeck 2015).

In trade and politics, the reversal of a tendency of “globalization” can be seen in many places of the world. International trade growth was arrested, the volume of shipping and air freight has stagnated, and politicians and the electorate in many countries, not only the USA, have become nationalistic again. There is remarkably less of the latter in Germany, possibly also because despite upheavals more serious than in any other country west of Poland and Czechia, the confidence that government and management can take on serious threats to the well-being of the population has been more stable than in any other, and also because of revulsions against nationalism after 1945. The media and politicians do not spread it about loudly, but in most parties the undercurrent or expressed opinion is that taking the social market economy seriously again, after the crisis-inducing delusions of financialism were exposed as such, is the way forward. Up to this date, management seems to have profited from the groundswell more than the unions and more than the unions deserve. They are “cheap at twice the price”, to quote the title of a paper on union officers which appeared in Britain in the beginning of the 1970s.

## Management Culture

A substantial part of management theory and research explains differences between managements of nations by cultural values. This theory and research have profited enormously from the work of Geert

Hofstede (2001), the second edition of a book which appeared twenty years before this date, and which has its main findings from the 1970s. The strength of the book and its research is that it had the best control for the industrial and occupational structure as an influence on management, so that national differences come out and are not diluted by structural differences. The study was focussed on IBM which had many subsidiaries in many countries. It had been directed at “work-related values”, a “programming of the mind” as the author called it, which expressed fundamental preferences and expectations regarding work itself, and in relation to private life and the social relations in the work sphere with colleagues and superiors. There have been other studies later on the same topic, and the results are not hugely different. But Hofstede has remained as probably the most valid statement on the topic, he has taken an effort to update results where possible, and has put them in the context of other comparative work.

Such fundamental values arguably influence not only work and management behaviour but also the design and redesign of work and management systems and of socioeconomic institutions governing management, which was covered in the previous section. We should not go into a fundamental discussion of what comes first, social institutions or values held by individuals as members of society, which would get us involved in futile chicken-or-egg questions. Institutions also influence behaviour, although individually held values may point in a different direction, for the simple reason that individuals find it pragmatically and opportunistically more useful to comply with institutions, disregard for which may induce sanctions or frustrations. Social values may, however, be linked with institutionalized practices in a general way, which does not exclude values being better explanations than institutions, or the other way round, or being independent of one another. It depends on the problem at hand. My own experience, for what it is worth, in international dealings has taught me that applying Hofstede’s findings to interpret the behaviour of people from other cultures correctly, is a central asset in managing relations in a way that avoids unnecessary misunderstanding of, and confrontation with, people from other cultures. Even professional colleagues who do know about Hofstede disregard the findings at their peril.

Let us, therefore, see where Germany figures on Hofstede's score sheet of value dimensions (see Hofstede 2001: 500 for the score values). A convenient starting-point is *power distance*, the measure for accepting vertical power differences between superiors and subordinates in the organization. In popular clichés cultivated above all in war films, the image has been created that Germans are authoritarian and superiors like to push their subordinates around. On inspection of Hofstede's measures, however, it turns out that Germans are about as power difference-accepting as the Swiss and only slightly more so than the Swedes and Norwegians. The Dutch who take pride, as Germany's neighbours, to be less authoritarian, even come across as slightly more power-accepting. This accords with my personal observation, having worked in both countries for a considerable time, that the Dutch do defer to authority more elegantly whilst the Germans speak up more clearly when they see a need to. Compared to all the other countries, Germany has a middle position on the scale.

Especially with regard to Germany, power distance is often confused with *uncertainty avoidance*, which expresses the tendency to reduce the uncertainty in business and work relations, by either family-type or clannish solidarity, or by providing formal rules and guidelines which make life more predictable. Here, Germany is higher on the scale, although clearly not as high as East European and Latin cultures. In Germany, rules are numerous and explicit, but they are also taken seriously, whereas in the cultures highest in uncertainty avoidance, rules are numerous, explicit and so constraining that their circumvention is prevalent and almost inevitable. Personal clans as a way of avoiding uncertainty are however insignificant in Germany. What we know from social history also points to the fact that extended families have never been that important as mechanisms of control and assurance. Despite paternalism in enterprises, sons were usually pleased not to need the father any more as a social resource and to move out of the house, and fathers tended to be relieved when the son left and was responsible for himself. Relations with cousins, aunts and uncles have been fairly unimportant, or were cultivated on a rather informal basis. It was the occupational community which counted after leaving home, and that has also marked management. Uncertainty avoidance through rule-making



and compliance, notably rules of occupational practice, has been a very potent coordination mechanism. This has led to the correct impression on the part of foreigners that Germans are formal. The formality and directness are quite different from authoritarian characteristics, and they should not be confused in interpreting behaviour.

Formality has also brought punctuality, meticulousness, seriousness and a degree of perfectionism which often appears irritating in encounters. Linked with this, there is the idea that Germans lack a sense of humour. To some extent, this is however an incorrect interpretation. In business encounters, Germans have misgivings about beginning them with a joke. The first priority is to establish professional credibility. Once this is assured, there may be an occasion for humour. But first things first, and in Germany, the first thing is professional credibility which, in this scheme of things, is not a laughing matter. Informally, German humour is certainly present and often more boisterous than many people consider appropriate. Through international MBAs and the use of the English language in enterprises, however, many Germans have probably learned how to loosen up dealings with a joke. In advertisements or commercials outside Germany, German manufacturers may however often stress the quality of a product by displaying totally serious and unhumorous engineers or managers, speaking with a clipped accent. De Mooij (2014, chapter 9) demonstrated how companies use such typifications in advertizing. This seems to work because uncertainty avoidance is linked with the avoidance of accidents, defects and malfunctioning, so that consumers appreciate stone-faced German engineers unhumorously praising a product.

Again contrary to many impressions, Germany has become a fairly individualistic country but certainly not as much as notably the English-speaking countries and not even as much as France and Italy. The *individualism–collectivism* scale has to be interpreted with caution because there are different collectivities competing for compliance, from the extended family via an occupational community or a firm to the nation. Individualism–collectivism is the one and only value dimension that exhibits a consistent monotonic tendency towards one end, individualism, across many countries. This is also present in Germany; its consequence in management is the tendency to individualize working

arrangements, and to gradually dissolve standardized working time, payment and career patterns. Unions have to some extent tried to bear this in mind, but there has nevertheless been a gradual decline of union membership in Germany after 1992, the heyday of unionization due to more or less compulsory union membership inherited from the DDR, in its former territory. More recently, union membership has been going up slightly in the IG Metall, the metalworkers' union which is the largest one and also represents the industries (automobile, machine-building, electrical engineering, aerospace) which are better paying and performing in the internationally exposed areas of the economy. Cultural tendencies are however far from homogeneous. Real wage stagnation had stimulated occupational egotism against collective representation of everyone in a plant or an enterprise, with a rise of occupationally specific unions such as for train drivers, pilots, cabin crew, and hospital doctors. Unemployment, wage stagnation and the shift to underpaid and precarious service work appear to have counteracted a collectivist spirit focussed on union membership and activity. But better economic conditions in internationally exposed industrial firms have probably revived collective solidarity. Individual interests may under certain conditions thus point individuals towards the collective organization. Although this is far from new, the activation of the relationship may at times be surprising, going against individualism but also linked with it in a paradoxical way.

The fourth dimension is *masculinity–femininity*, which very much reflects gender differences in society. Germany comes across as more masculine, similar to Britain and the USA but quite different from not only Scandinavia and France which are more feminine, with less differences between genders. The more one goes north in Europe, the less is the gendered differentiation of work inside and outside the household and nuclear family, of social spheres and jobs. Germany is exactly in the middle. Masculinity means a strong interest in work itself, its material rewards and contacts at work, rather than in the quality of life away from the sphere of work. That would be expected from Germany, and Austria and Switzerland are even higher on the scale. Nevertheless, there are demands to reduce the bias against the advance of women in enterprises, and this has a subtle and gradual effect on organizational and

human resource policies. The origin of the gendered differences lies in the extent of social differences not only between men and women but also between inside the household and outside.

A fifth dimension which Hofstede only added later is *long-term orientation*. Germany comes across as relatively high in a cluster of North European, Northwest European and Anglo-American cultures, but of course long term orientation is more pronounced in Asia (Hofstede et al. 2010: 255). This corresponds with institutional arrangements, since the orientation of management, notably in the *Mittelstand* sector of enterprises but also in joint-stock companies, has a longer time horizon than the short-termism cultivated at stock exchanges, notably Anglo-American stock exchanges. German firms tend not to expect short payback periods for investment. There has also been vociferous resistance against quarterly reporting in joint-stock companies, such as by a past chairman of the board of management of Porsche, who could afford to dissent loudly on the basis of not only the reputation of the product but also the share price. In the past period of enthusiasm for shareholder value, some German firms have taken the plunge to register at the New York stock exchange, but strikingly less than from e.g. the Netherlands, a neighbouring country with less long-term orientation and a greater importance of large MNEs.

## Links Between Culture and Organizational Practices

The most tempting comparative values finding for Germany is where Hofstede (2001: 377) builds the bridge over to the comparisons of management practice and institutions. He does that by crossing the dimensions of uncertainty avoidance and power distance; Germany is in the quadrant with high uncertainty avoidance and low power distance, as we could already gather from the discussion of its position on individual scales. The quadrant thus is the one in which people appreciate structured and well-regulated work organization, but they do not appreciate the deferential obedience implied by power distance. The type of organization, Hofstede now suggests, is attached to the low power

distance and high uncertainty avoidance situation; he calls it the *well-oiled machine*. This is a professional bureaucracy which uses the standardization of skills (or qualifications, or competences) by education and training, and which has its centre of gravity in the operating core, i.e. the component of the organization that makes its products or delivers its service. Here, Hofstede used terms coined by Henry Mintzberg (1983). Interestingly, Germany finds itself in the same quadrant with the other German-speaking countries, Finland and Israel. That Israel should also figure here is probably surprising to many readers, but not so surprising if we consider the importance that culture and institutions from German-speaking countries (Germany, Austria and also Jews drawn to German culture and civilization from Galicia and other areas of Poland or former Austria-Hungary) have had in the building of enterprises, technology and research in Israel.

In this way, Hofstede reflects exactly what emerged from international comparisons of the organization, human resources and industrial relations (Sorge et al. 2015: chapters 5 and 7). German enterprises have more substantial and more highly regarded production components in which trained occupational professionals to work relatively autonomously to professional standards, which to some extent become such by being ordained by enterprise decision, and which are to some extent co-determined by management and works councils. Superiors work within rules and are respected if and when they do so; sticking to rules is part of professional competence, and the professional or occupational link between management and subordinates facilitates cooperation.

## Management as an Imported Concept

The first classic on emerging post-war West German management, but also respecting historical heritage, was a book by Heinz Hartmann (1959). The central point was that the word and the idea of management were considered as alien and ill fitting in Germany. Notably, there was the idea that management was no coherent profession that could be taught as such. This was not sheer xenophobia or aversion to things American. American methods of rational production organization in

large-batch and mass production had already been widely respected, if not copied, in the inter-war period. Germany had been a forerunner in the establishment of a national organization called *Reichskuratorium für Wirtschaftlichkeit*, RKW for short, to promote what was called *Rationalisierung*. This organization was reformed and continued after the end of WWII, under the same abbreviation but a new designation: *Rationalisierungskuratorium der Deutschen Wirtschaft*. It now was a co-determined organization under the supervision of both, employers' associations and the trade unions. It also functioned as the productivity enhancement arm of the Marshall Plan. In this way, Germany had the most encompassing productivity enhancement organization in Europe, and it had already existed before the Marshall Plan came to Europe. After the war, it was even legitimated by co-determination, which is again fairly unique in Europe. Over time, the RKW shifted its tasks towards consulting for start-ups and SMEs.

But as Hartmann (1959) showed, management was not a respected idea under this term in the German language. It referred above all to the management of dubious endeavours such as boxing events at fun fairs, and it was taken to stress that those who did it were not sufficiently experienced in what they managed, and were shifty characters in a number of ways not corresponding with norms of commercial and technical competence and honesty. That was also taken to be the American root of the term. Furthermore, management was seen to be split into different notions and activities, *Führung* implying leadership as defining enterprise goals and inspiring employees on the one hand, and *Leitung* as adopting and implementing the means to achieve enterprise goals defined by top management. *Leitung* could be taught and was fairly technical in engineering, law, administration and commerce. *Führung* was, however, more charismatically based, could not be taught but was rooted in personal characteristics that came out in the process of acquiring practical experience.

Politically correct Germans and many foreigners tend to either cringe or grin at the mention of the word *Führung* because obviously the word was given a bad name by nazism after 1933 when Germany not only had a *Führer* at the top but was flooded with leaders in their millions, from leaders of small youth movement groups and work teams upwards. On the other hand, the word also had a very mundane

side, denoting what a tourist guide (*Fremdenführer*), driver of vehicles (*Fahrzeugführer*), train conductor (*Zugführer*) and aircraft pilot (*Flugzeugführer*) did. Cars and especially planes are unimpressed by any hierarchical mannerisms of a driver. This use of the term has remained fairly uncontroversial. It has also remained in the armed forces as a generic term, although mostly used for lower command positions such as *Gruppenführer* (squad leader) or *Zugführer* (platoon leader), and in manoeuvre sketches for heads of units and formations.

## Fashioning Managerial Careers

Over time, “management” and “manager” have gradually crept into more widespread use, notably in large internationally active enterprises and with foreign staff, with the acceptance of their other dimensions: responsibility for complex processes and activities, and for achieving results by combining technical, commercial or personnel measures. In this way, Germany has made its peace with the management idea. However, it is still infrequent and considered somewhat superficial and uppity where people have “come up through the ranks” on the basis of vocational education and training and head up directly operative departments in production, maintenance or sales. Official use of the term is thus very much a matter of company style and conventions. Whereas in India there is a profusion of manager designations down to foreman functions in workshops, Germany uses them carefully and avoids them, where grandiloquence does not command respect because experience and further occupational training are considered sufficient to confer prestige and authority. Likewise, management or business schools have come up next or in addition to university or college education, particularly when they confer prestige as American or British schools or INSEAD, by the help of which graduates can demonstrate having rubbed shoulders with a supposed sort of international elite. Yet, it is striking that INSEAD has perpetually wondered why its intake of students, notably for “executive courses”, from Germany was less than expected and why German firms recruited fewer people from INSEAD than potential demand would suggest.<sup>7</sup>

It is striking that German top management combines the international state of the arts of self-advancement with the traditional foundation for legitimacy in management, such as familiarity with the products or services of a firm and experience in the directly productive or service-delivering functions. Bauer and Bertin-Mourot (1999), in a comparison of French, British and German top management, showed that 32% of German bosses had started out in the firms they headed, having worked their way up and taking a longer time to be appointed to top positions. Even when they had academic degrees, they very often also had qualifications acquired by apprenticeship, “at the bottom” as it were. This could be training and experience as a fitter but also as a banking or insurance clerk. The authors called this type of manager the mountain climbers. Conversely, it is rarer to come to the top of a firm sideways, by external recruitment from the management of a different company. More recently, by all accounts, the sideways appointment has become more frequent, when strategic reorientation appeared to be required and managers who were likely to have a more independent approach that would break with established habits and vested interests appeared required. This has happened above all in large retailing and service enterprises, but these have also seen bosses that took up a position in the heyday of financialism discredited and even finish up in prison, in a prominent case. Top bosses of VW, Daimler-Benz, Munich Re, a leading name in reinsurance worldwide, and other reputed enterprises have remained insiders. The best known exponent of financialism was Ackermann, a Swiss national who came to the top of Deutsche Bank from the outside, the first outsider to come to the top of the bank. He had to leave in disgrace as the bank was involved in a number unethical and unlawful operations exposed after the financial crisis. This confirmed and rekindled earlier suspicions that “management” ran the risk of becoming unprofessional, by misleading trusting employees and gullible customers, as suggested in the clichés mentioned by Hartmann (1959).

But external experience before moving to the top is not wholly new; there has also been an established tradition in owner–managed SMEs to first make a successor by inheritance, in the owning family, undergo experience elsewhere in order not to be *betriebsblind* (blinded by narrow perspectives of the plant or company), one of the most popular pejorative

adjectives to warn against purely internal perspectives that would stymie change and innovation. This dates back to a historical practice from the Middle Ages which required both journeymen and forthcoming independent master craftsmen to have moved about in the country or even internationally, collecting experience elsewhere. This practice has also continued for industrial supervisors, required as they usually are not to work in the factory in which they had been trained or previously worked. In large joint-stock companies that have become multinational, it is also usual to have managers work in foreign subsidiaries before promotion, but this applies to MNEs from other countries, too. Whereas the top management of German joint-stock enterprises had not been very international in the past, it now is close to the top of internationalization scores of boards in Europe, behind the Netherlands. But one should not make too much of internationalization scores of boards, since there is a clear tendency to appoint foreigners from countries which are closer on a cultural distance scale, and from countries with which a longer history of trade relations exists (Van Veen et al. 2013). When German enterprises recruit Swiss or Austrian nationals, this does not make too much of a difference, and neither does recruiting nationals of countries from former colonies make much of a difference in Britain. But there have also been prominent and successful cases of an Italian (Vita, heading Schering in the past) and Dutchmen (such as Dekker heading Bayer).

The most stimulating account of German managers and management which ran until the end of the 1970s, with field research done by a foreigner speaking the language who notices more than a native, was done by Lawrence (1980; 2017). The period did include a crisis in European and North American economies due to the “oil shocks” following the Yom Kippur War of 1973 and the drastic raising of oil prices by OPEC, and the floating of currencies which led to the continuous upward valuation of the D-Mark which put a strain on governments, management and labour. But the oil price rises not only affected the Western and the Third World. The Soviet government took a step against the obligations of internationalist brotherhood that COMECON<sup>8</sup> countries, led by the Soviet Union, expected. The Soviet Union raised prices for its socialist brother countries, too, implicitly confirming that world market prices must prevail over socialist solidarity. That brought centrally



controlled socialist management in the DDR, which was expected to maintain price stability, to its limits. East German management could not restructure enterprises strategically, which created an impossible situation. The government chose to get out of it by continuously raising its international debt, mainly owed to West German financial actors. And this was the reason why DDR collapsed at the end of 1989: West Germany stopped “throwing good money after bad money” when DDR became insolvent and was begging for even larger credit than before. Thus, although East German management was probably the best to be found in COMECON, its political–economic constraints brought it down. In a nice paradoxical twist, the socialist system that had worked to abolish bankruptcy of firms, went bankrupt itself.

## Managerial Behavior

Lawrence, in his work which included the mainstay of the West German economy, medium-sized enterprises, now set out the following characteristics prevailing at a time of economic crisis and restructuring. One is a focus on improving the product, which governed the behaviour of various functions. That was the core strategy and it was implicit or self-evident. Playing the stock market was not considered; existing internal resources in capital and labor were the central assets to be cultivated. The emphasis was very much on organizational stability, as a dialectical complement to the technical development and compliance with customers' requirements, which were the main parameters of action. Adapting products in order to maintain or increase market share was seen to be facilitated by a clear, tidy and stable organization.

To make reliable firm performance possible, managers were much obsessed by a notion which is almost impossible to render in English or other languages by a short and punchy word: *Termin-treue*. This means “faithful adherence to deadlines”, deadlines not only being one planning tool among others but almost sacrosanct and a hallmark of “acting in good faith”, as English law expresses a more general quality of good behavior between contracting actors. *Treue* derives from the “fidelity” and loyalty supposedly governing manifold relations, from marital relations via the

bond between firms and clients (*Kundentreue*), and indeed back to the old feudal notion of bondage between lords and vassals. The opposite of *Treue*, *Untreue* of managers with regard to the interests of an enterprise, even is a punishable offence in the penal code, and trials with this accusation have drawn wide public interest.<sup>9</sup> Being faithful thus is a morally charged term not only associated with persons but also managerial planning targets and general behavioural standards. Lawrence also mentions a number of morally laden and emphatic notion such as *Arbeitsfreude* (joy in work) and *Einsatzbereitschaft* (initiative) which are used in personnel evaluation. Management thus very much appeals to cultivated or ingrained motivational resources, beyond the opportunistic nexus of reward for money; the latter is also a sign of moral approval for good services.

In Lawrence's account, management was not overtly fascinated with strategy but featured a meticulous attention to details, following the hallowed saying that "the devil is always in the details". There was no unwillingness to delegate responsibilities but a strong tendency to share them, in a way which was beyond the segmentation of functions and job descriptions. A manager was expected to be informed about details that went on, and in continuous touch with others about possible problems and how they might be resolved. Anticipation of problems was important. Facts-based cooperation marked the style of social relations, without obsessions about status distinctions but filled with forthright and instantaneous expressions of points of view. Preparing for unknown threatening contingencies was highly cultivated, which did decidedly not put a premium on lean organizing in the sense of minimizing stocks. Uncertainty avoidance also showed itself in this respect. That may have changed at a later time, but the design principle of "redundancy of qualifications" (having more skills available than immediately required) to anticipate and deal with unforeseen contingencies has always been stressed, as one variant of uncertainty avoidance that uses the qualitative flexibility of labour based on broadly based training. To this extent, the idea of "lean organizing" was alien in Germany, because reserves were a good thing: competence reserves, reserve stocks, capacity reserves, safety reserves were all part of the concept to reduce the deleterious consequences of uncertainty and make the enterprise and the product robustly reliable.

Such results were later confirmed by an Anglo-German comparative study done by Stewart et al. (1994). German managers emphasized organizational reliability and order, whereas British managers tended to prove their mettle by reorganizing things, often soon after getting a new position. Contrary to many clichés, German managers are less obsessed by organizational charts. Organizational architecture with its relations of subordination is understood to be necessary but not a central tool of management and, if it was made to be one, it would be a bone of endless contention. The managerial focus is on processes, of which deadlines are important aspects, and taking care of them without regard for precise subordination is central. This nicely fits with Hofstede's characterization of German management as striving to be part and control of a "well-oiled machine", by focusing on the process rather than the structure, as a professional "workflow bureaucracy". In one of the companies I had studied, which was in the large batch production of weapons, not in the idiosyncratic manufacture of investment goods, I inquired about an organizational chart and was literally told that "... there is one, and you can have it. But you have to understand that an organization chart has to be able to breathe [sic!]. We made this chart because the ministry of defence [the main client] requires it. For a realistic depiction, you had better use the telephone directory". Very often, organizational charts are handled with care so as not to give rise to quarrelling about responsibilities and status. A classic distinction in German business administration teaching is between *Ablauforganisation* and *Aufbauorganisation* (between the organization of the business process and the architecture of the organization); the exhortation is usually to first think of organizing the process and then think about which organizational structure can achieve a smooth process.

It was therefore apt for Warner and Campbell (1993) to describe German enterprises as "the engine room of the European economy", much like the engine room of a ship. There is a focus on the development and making of machines of all sorts, and making these machines seems to instil the discipline of an engine room, with a calm attention to details, where the reliable running of the machine is the most important requirement for the whole ship to sail. In an international comparison, German enterprises give greater prestige and responsibility to

production functions, production workers and production managers; they emphasize the supporting role of other functions with regard to direct production; careers between plant management and higher management are not interrupted but continuous.

Structures of organization and behaviour of management will strike many readers as slightly conventional and not up to the latest trends in management. This impression has indeed often been vented; it is not new but unendingly repeated in different forms, depending on what the latest fashion is. After the end of the 1980s, the opinion often expressed was that German management and in particular corporate governance were not up to the requirements and possibilities in an age of globalization and international finance, when financing of investment out of capital issue on the stock markets of the world was more lucrative for firms than tedious dealings with house banks in order to escape the discipline of the capital markets. Pleasing the stock market by going through the buzz words of the time in quarterly reporting and shareholder communications rituals was fashionable: organizational leaning, subcontracting, vertical disintegration, reduction of wage costs, sharing of services, rewards of top management dependent on shareholder value created, etc. For a time, the costs of capital were indeed lower on the stock markets than via bank finance. Thus, going against practices established in Germany for a time had a functional logic. But this tendency was reversed in due course, after the 2001 and 2007+ crises. Nowadays, even in the USA, joint-stock companies prefer bonds for finance, at a time of artificially low rates of interest for bank credit. The recent evidence indicates that many of the supposedly shareholder value oriented practices have profited above all (top) management compensation and led to the building of monopoly power, rather than competitiveness.<sup>10</sup>

## Changing Management Fashions

Reversals of tendencies are frequent in the history of management concepts. At the beginning of the 1970s, an official consultants' report on German management was commissioned. This deplored that German management was behind the US state of the art, in a number of things,

such as divisionalization, general and strategic management, and applying management science methods. Such criticism has always been discussed willingly in the period after 1945, as Germans have tried to show that they have learned their lessons and are willing to learn more, in a self-deprecating way. Whilst such self-deprecating self-criticism has also been visible at different times in Britain, France, Spain and Italy, Germans have always tried to excel as the best pupil in the form, notably after 1945. There has always been something to the criticism vented, but it has equally been proved wrong to an even larger extent, partly because fashions and economic situations changed, partly because across the board in an economy dominated by SMEs, private ownership, patient capital and bank finance, where competence from the bottom up and committed labour have counted more, many imported concepts turned out to be inferior, even by the standards of the exporting country such as the USA. In his review of the consultants' report by Booz Allen and Hamilton, Hartmann thus rightly pointed out that it was based on what might be called "cultural imperialism", by suggesting the superiority of concepts for markets, a culture and institutions where they were not only alien but ill-performing (Booz Allen and Hamilton 1973). All the critics in Germany, of the American idea of management as taught in business schools and by consultants, whether in 1950 or in the seventies or more recently after the crises of 2001 and 2007+, would be delighted by the attack from the USA itself, by such authors as Stewart (2010). It reflects what many German practitioners always suspected.

Germany has, of course, introduced divisions to quite an extent since the 1970s, and it has tried out other methods. But whereas the spirit of the late 1960s was for the diversified conglomerate, financing new and risky ventures out of the profitable "cash cow" businesses, this gradually changed into the enterprise focussed on a core business it understood well. That was closer to German business concepts. Daimler-Benz has been the most prominent victim of such changes in fashion, first becoming a diversified and—needless to say—divisionalized conglomerate with cars, lorries, electronic commodities, and even aerospace and defence goods; then it shed the electronics, aerospace and defence arms it could not handle, and in the 1990s it became a globalizing enterprise focussed on cars and lorries, notably through the merger with Chrysler

and the acquisition of Mitsubishi Motor. That was the time when the canteen chat in the enterprise was to ask how on earth it was possible to buy Mitsubishi Motor, which was a rust heap, and whether the merger with Chrysler would succeed, because the Americans never wanted to learn how to make proper quality cars. The common soldiers wondered whether the generals got it all wrong, and they were proved right. The merger with Chrysler and the Mitsubishi Motor acquisition split up again, at great costs and losses to Daimler-Benz, and the latter also had to climb down from the idea of globalization by the merger. The firm has returned to what it was, on the basis of what its human and organizational resources allowed it to do well, a manufacturer of luxury cars and reliable vans and lorries, with an expanding range of types of cars beyond the conventional sedan car.

## **Internationalization: The Historical Context and Its Impact**

The discussion of management concepts has already taken us to the issue of internationalization. For German firms, this was discussed most markedly by Christel Lane (2000). Her point was that German culture and institutions have prevented German firms from going abroad through direct investment, beyond exporting and sales and service subsidiaries. There was little confidence in the suitability of foreign settings, for producing in the ways and to the standards established in Germany, and domestic resources appeared more suitable.

There certainly is something to the argument, but the question is how much. One of the things distinctive for Germany's internationalization but strangely forgotten although unique because it happened nowhere else in the world, is the following. Germany was indeed a keen direct investor abroad, notably at a time when the gold standard applied and currencies were floated, before 1914. Siemens had subsidiaries in Britain, the Tsarist empire and a number of other countries. Also during the inter-war period, direct investment went abroad. Germany was of course not an avid colonial country compared to Britain, France and the Netherlands. Spain and Portugal had lost their colonies before the

others had driven colonialism to the climax, and in the Tsarist empire national expansion and colonialism were in practice the same thing. The parsimonious colonialism from Germany, which was completely reversed in 1918 by the victorious enemy powers in WW I, restricted foreign direct investment from Germany. But of course India and Indonesia were not fully foreign to their European mother countries at the time, and neither were Central America and the Caribbean foreign to US domination when they colonized this part of the world. The mode of entry of companies into former colonial countries is still visible today, in the “multi-domestic” (MNEs) that are more prevalent in Britain, whereas German MNEs were more likely to go for an “international” strategy, i.e. they founded foreign subsidiaries which mainly replicate the products and methods established at home. Why, indeed, would you offer Asian, African or American buyers a BMW or a Mercedes that was inferior compared to the make in Germany and for Europe. Establishing quality brands abroad came more naturally to German makers, as something that would also sell well in foreign markets, by constituting a unique selling point and the profit margin attached to it.

But what was unique to German direct investment abroad is that it was expropriated by the countries of destination twice over. At the end of WW II, there was even a rush of foreign countries to declare war on Germany at the very last minute, although Germany never looked for any quarrel with them, such as Bolivia. That allowed everyone, not only the belligerent participants in the war, to expropriate, nationalize or distribute German property. Austria also joined the game, styling itself as the first victim of nazi invasion and nationalizing the steel works built up after it became part of Germany in 1938; it is now a well-known maker of quality steels and machines under the name of VOEST (*Vereinigte österreichische Stahlwerke*).

The effect that being expropriated twice over had on preferred approaches to internationalization, is easy to guess. Rather than burning their fingers again, firms at first cautiously went for exporting. Furthermore, until the D-Mark started to be revalued upwards after 1973 consistently until becoming part of the Euro after the millenium, inflation and the increase in labour costs were lower in Germany than

in other Western countries, also because industrial–regional wage bargaining kept rises in check. And the increasing value of the D-Mark reduced inflation via cheaper prices of imports. Thus, a combination of factors worked together in the past, to make a conservative strategy of internationalization by exporting prevail.

This never changed fundamentally; macroeconomic conditions and policies together with the cultural and institutional setting that conferred a “comparative economic advantage” in quality production, customized production, investment goods and luxury cars. This made production in Germany a preferable choice, even when some locational advantages existed elsewhere. Vertical integration at home also made it possible to profit from links between R&D and production, which was facilitated by both, business models and social institutions. Germany has a particularly dense network of public but also commercial R&D supporting facilities, such as the institutes of the Fraunhofer Society,<sup>11</sup> in addition to local science parks and links between firms and universities. What probably distinguishes the German system of R&D support from that of the USA is that it is more directed at technically sophisticated SMEs, which are by that token closer to the “high tech” profile.

In addition, notably in investment goods markets, there is the problem of the size of the world market and of “indivisibilities”: It would be technically and economically impossible or disadvantageous to split up activities and locate them at different sites in different countries. Consider the following example. London has the longest experience in building an underground railway network in the world. For drilling underground tunnels, you need sophisticated machines. Potential accumulation of experience would have suggested that Britain should manufacture such machines, since no-where else would the learning-by-doing have been possible in a more sustained way, also given British experience in machine-building. However, it turns out that the machines to drill the latest Crosslink tunnel come from Germany. The firm making them has obviously accumulated advantages rooted in the cultural and institutional home setting, and these advantages stick to capital and location over time. It is probably even impossible to reduce them greatly by imposing an import tariff, never mind what a populist president or government may have in mind. There are other examples, such as



heavy diesel engines for large ships: the market leaders in Europe are not located on the coast but in Augsburg in southern Germany, the place where the first Diesel engine ran, and in Switzerland.

## **Internationalization: From Direct Exporting to Direct Investment**

But in many consumer product markets, notably for mass produced goods, countries in Asia and the Third World became increasingly competitive, as locations for direct investment and as homes of new entrants. This happened with the floating of currencies after 1973 and the stepwise reduction of tariffs, under the almost world-wide General Agreement on Tariffs and Trade (GATT) and with the expansion of the European Communities and the European Free Trade Association. Another important influence was, again, the collapse of communism in Eastern Europe; this tempted German companies, very much including SMEs, to locate subsidiaries in such countries which had unemployed, trained and less costly labour. So, since about 1973, the situation changed massively as German enterprises not only retained export performance but also built up MNEs, at first large ones but more and more SMEs. However, by all accounts, their strategy remained one of transferring production and service delivery templates into foreign markets, and of sourcing production of parts and components into other locations for various reasons such as costs and availability of resources. Luxury cars, or their components under a German brand are to a large extent made in e.g. South Africa, India, Mexico, Britain and the United States, in order to be close to markets.

Now, German manufacturers have also gone bankrupt, were scaled down or changed product in a number of industries, after 1973 as Europe and North America de-industrialized and other countries industrialized. Not only textiles and garment production have left Germany to a large extent but also electronic components, radio and television equipment, computers and also a more traditional German strength, binoculars and cameras. Germany has a high intensity of R&D effort in international comparisons, and its R&D is probably spread among

SMEs and products appearing as traditional or conventional much more evenly than for most other larger countries. That also makes for a lesser frequency of companies which are highly R&D-intensive or “high tech”. But this is also due to differences in vertical integration: IT and related manufacturers make very little in-house, but German enterprises excel in products for which relations between production and development are considered important, such as in the example mentioned, of large marine diesel engines. Now, higher vertical integration of the value chain immediately reduces the R&D intensity in the accounts. Manufacturers outside electronics proper have mostly upgraded their products by adding electronic controls, very often developed by themselves. The German approach to industrial change is to modernize and upgrade existing products and activities in a gradual way which may boil down to a fundamental change in the long run, and to avoid structural ruptures, with some companies disappearing and others emerging. A good example is Kuka, recently in the news as a leading robots manufacturer being acquired by the Chinese; the firm had started out making the equipment that lifts rubbish bins and tips them into a truck.

The segmentation of the value chain has become frequent, against German tendencies to keep production and development in the same company and on the same site. This happened by locating particular stages of manufacturing in firms acquired because they are situated in a regional environment considered more favourable. An example is the making of wafers with circuitry that goes into aerospace and defence products; the firm developed the electronic circuits itself but had bought a Californian firm for making the wafers. Another firm, one of the most important makers of electronic components in Germany as consumer electronics gradually left the country, has been Diehl, a diversified maker of the ordinance with electronic ignition. Different strategies of internationalization are thus established in different industries: exporting in high value and highly customized investment goods, direct investment into foreign supply subsidiaries for more price sensitive consumer products or somewhat standardized machines. The most prominent example of a transnational company is, of course, Airbus, with civilian planes, defence and helicopter arms, but Lufthansa is also approaching a transnational model, with different brands attached to

different locations having different histories; half the Lufthansa Group fleet is in foreign subsidiaries, making it the most multinational enterprise in the airline business (Sorge et al. 2015: chapter 12). All that has made German management much more international than was the case until the 1980s. But its distinctiveness is attached to business models, industrial structures, and national culture and institutions, in a way which interweaves influences of such factors. This will lead to continuity in the midst of internationalization.

## Notes

1. *Reich* is derived from the Latin *regnum* (reign), and the derived Germanic term has been used in the Scandinavian languages and in Dutch (rig, rik, rijk) until the present-day.
2. Weber had elaborated on the link between the Calvinist doctrine of predetermination and capitalism in English nonconformists. Although he had married into an entrepreneurial family in Eastern Westphalia and even done an industrial case study in one of the enterprises, he did not systematically deal with the link in Germany.
3. Contrary to the popular Western image propagated after WWII, Hitler did at first not intend to wage war on the west of Europe but stumbled into this when his attack on Poland led to declarations of war from Britain and France. His gamble was that Britain and France would remain passive about Poland just as they had been when he dismembered Czechoslovakia.
4. After 1990 and for about two decades, fiscal transfers including economic subsidies in the order of roughly €150 billion went from West to East per year, to modernize government and infrastructure, and to build up new competitive enterprises.
5. Consider that wages were nearly equalized between East and West within a few years, although DDR only had a fraction of the productivities (capital and labour) required to pay for such wages. Massive collapses of firms and increases in unemployment were the immediate consequence, as could be predicted. Massive transfers of finance happened from West to East, to the tune of about €150 billion for decades, to build up infrastructure and reorganize enterprises.

6. In 1997, as financialism and the attached managerial heroism and self-aggrandizement spread in Germany, one could read in *VDI-Nachrichten*, the weekly paper of the engineering association, expressions of misgiving. The management heroes that strutted the stage of the St.Gallen colloquia were thought pompous and overpaid because they all said the same.
7. I am indebted for this information to my friend Jean-Claude Thoenig, former professor and dean at INSEAD.
8. COMECON stands for Council for Mutual Economic Assistance, a group of Communist countries. It lasted from 1949–1991.
9. This is Article 266 of the penal code (*Strafgesetzbuch*). In 2015, there were no less than 7410 procedures recorded. This is in addition to the more common offence of fraud.
10. See the comments of “Schumpeter” in *The Economist* volume 423, no. 9037, April 22, 2017, p. 60.
11. The Fraunhofer Society was initially a Bavarian public research organization, next to the more famous Kaiser Wilhelm Society, re-named the Max Planck Society after 1945. In order not to annoy Bavarian federalists, the Fraunhofer Society was continued as a German national institution with a profile in engineering and applied sciences, with a target of roughly one eighth of its funding being commercial.

## References

- Bauer, Michel, and Bénédicte Bertin-Mouroit. 1999. National Models for Making and Legitimizing Elites: A Comparative Analysis of the 200 Top Executives in France, Germany and Great Britain. *European Societies* 1: 9–31.
- Booz, Allen and Hamilton. 1973. German Management: Challenge and Response. A Pragmatic Review with an Appraisal by Heinz Hartmann. *International Studies of Management and Organization* 3 (1–2): 1–150.
- De Mooij, Marieke. 2014. *Global Marketing and Advertising: Understanding Cultural Paradoxes*, 4th ed. Thousand Oaks, CA etc.: Sage.
- Hartmann, Heinz. 1959. *Authority and Organization in German Management*. NJ: Princeton University Press.
- Hofstede. 2001. *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations*, 2nd ed. Thousand Oaks, London, New Delhi: Sage.

- Hofstede, Geert, Gert Jan Hofstede, and Michael Minkov. 2010. *Cultures and Organizations: Software of the Mind*, 3rd ed. New York: McGraw-Hill.
- Lane, Christel. 2000. Understanding the Globalization Strategies of German and British Multinational Companies: Is a Societal Effects Approach Still Useful? In *Embedding Organizations*, eds. Marc Maurice, and Arndt Sorge, 189–208. Amsterdam: Benjamins.
- Lawrence, Peter. 1980. *Managers and Management in West Germany*. London: Croom Helm.
- Lawrence, Peter. 2017. *Managers and Management in West Germany*, 2nd ed. London: Taylor and Francis.
- Lehmbruch, Gerhard. 2001. The Institutional Embedding of Market Economies: The ‘German model’ and Its Impact on Japan. In *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison*, eds. Wolfgang Streeck and Kozo Yamamura, 39–93. Ithaca, NY: Cornell University Press.
- Mintzberg, Henry. 1983. *Structure in Fives: Designing Effective Organizations*. Englewood Cliffs, NJ: Prentice-Hall.
- Sorge, Arndt, Niels Noorderhaven and Carla Koen. 2015. *Comparative International Management*, 2nd ed. Abingdon, UK, and New York: Routledge.
- Sorge, Arndt, and Wolfgang Streeck. 1988. Industrial Relations and Technical Change: The Case for an Extended Perspective. In *New Technology and Industrial Relations*, eds. Richard Hyman and Wolfgang Streeck, 19–47. Oxford: Blackwell.
- Sorge, Arndt, and Wolfgang Streeck. 2016. Diversified Quality Production Revisited. The Transformation of Production Systems and Regulatory Regimes in Germany. Discussion Paper 16–13, Cologne: Max Planck Institute for the Study of Societies.
- Stewart, Matthew. 2010. *The Management Myth: Debunking Modern Business Philosophy*. New York: W.W. Norton.
- Stewart, Rosemary, Jean-Louis Barsoux, Alfred Kieser, Hans-Dieter Ganter, and Peter Walgenbach. 1994. *Managing in Britain and Germany*. London: Palgrave Macmillan.
- Streeck, Wolfgang. 1997. German Capitalism: Does It Exist? Can It Survive? In *Political Economy of Modern Capitalism. Mapping Convergence and Diversity*, eds. Colin Crouch and Wolfgang Streeck, chapter 2, 33–54. London: Sage.
- Van Veen, Kees, Padma Rao Sahib and Everlien Aangeenbrug. 2013. Where Do International Board Members Come From? Country-level Antecedents

of International Board Member Selection in European Countries.  
*International Business Review* 23: 407–417.

Warner, Malcolm, and Adrian Campbell. 1993. German Management. In  
*Management in Western Europe*, ed. D.J. Hickson, 89–108. Berlin: Walter de  
Gruyter.

# Ukraine: Between Russia and the EU

## Sociopolitical Aspects of Business Culture in Ukraine

Oleksii Polegkyi

### Introduction

Ukraine is big country in the heart of Eastern Europe and has a strategic location between Europe and Asia. Despite the fact that Ukraine is one of the largest countries in Europe with a population of nearly 45 million people, little is known about this country around the world. Recent political events are known as the “Euromaidan Revolution” and further Russian aggression have attracted the world’s attention to Ukraine, but what are the specifics of this country?

---

O. Polegkyi (✉)

Graduate Institute of Russian Studies, National Chengchi University,

Taipei, Taiwan

e-mail: Polegkyi@gmail.com

O. Polegkyi

Political Communication Research Unit, University of Antwerp, Antwerp,

Belgium

© The Author(s) 2018

R.A. Crane (ed.), *The Influence of Business Cultures in Europe*,

[https://doi.org/10.1057/978-1-137-50929-1\\_4](https://doi.org/10.1057/978-1-137-50929-1_4)

## Basic Information

Ukraine is bordered by Russia and Belarus to the north-east, Poland, Slovakia, Hungary, Romania, and Moldova to the west, and the Black Sea and the Azov Sea to the south.

According to the most recent census in 2001, the population of Ukraine was more than 48 million. The number of Ukrainians was almost 78% of the entire population. Russians constituted the largest minority with 17% of the population. Areas of eastern and southern Ukraine have ethnic Ukrainian majorities who are mainly Russian-speaking. There are near 100 other nationalities and ethnic groups which live in Ukraine.

The official language in the country is Ukrainian, although a majority of the population is, in fact, bilingual, speaking fluently both: Ukrainian and Russian. Ukrainians often hold conversations across two languages without really noticing. Many people in eastern and southern regions of Ukraine use Russian as their first language. According to the census in 2001, the number of those whose mother tongue was Ukrainian was 67.5% of the population. Near 30% consider Russian as their mother tongue. The use of English is not widespread, but many young Ukrainians, especially in big cities and businesses involved in international cooperation know English quite well.

The majority of the population are members of the Orthodox Church, but are divided into two Patriarchates—Kiev and Moscow. There are also Roman Catholic and Greek Catholic Churches or the Uniate Church, mainly in western Ukraine. There are also Protestants, Muslims (mainly Crimean Tatars) and others.

Ukraine joined the World Trade Organization (WTO) in 2008 and became a member of the Energy Community in 2011. In 2014, Ukraine signed an Association Agreement with the EU, thus joining a Deep and Comprehensive Free Trade Area. The Agreement provides for the approximation of policies and legislation of Ukraine with that of the EU. The EU agreed to provide Ukraine with political and financial support and access to European markets.

Ukraine has a strong agricultural base, a large quantity of natural resources and a high capacity for industrial production combined with its large, very well educated, and highly skilled population. The Ukrainian fertile black soil has helped earn it a reputation as the “breadbasket” of



Europe for its agricultural production. But it has also heavy industries—mainly in the east and south. Ukraine’s main export products are metals and agricultural products (together accounting for nearly 40% of exports).

Ukraine suffers from low energy efficiency and is largely dependent on imported energy resources. It has one of the highest greenhouse gas emission intensities among former Soviet countries, and is 24th in the world.

Human capital development as expressed by the level of educational attainment of Ukraine’s population has been among the highest in the world for the last few decades. The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income indicators, which are used to rank countries into four tiers of human development. According to the United Nations Development Programme (UNDP), Ukraine’s Human Development ranking in 2016 was 84 (out of 188 countries), the Human Development Index was 0.74 (where 1.00—highest point), and life expectancy at birth (the number of years you may live under normal conditions) was 71.1. Two-third of Ukrainians live in cities (UNDP 2017).

According to the World Economic Forum (2017, p. 350), Ukraine ranks 85th (out of 138), has a score of 4 (out of 7) in the Global Competitiveness Index, and holds a quite high 4th pillar—“Health and primary education” score of 6 (out of 7). Ukrainian Gross Domestic Product (GDP) based on the Purchasing Power Parity (PPP) per capita was 7970 (US\$) in 2015.

## History of Ukraine

The roots of the Ukrainian nation go back into the distant past (see Plokhly 2015). In the tenth and eleventh centuries, Ukraine was the center of the largest and most powerful European state, the Kievan Rus, which was also the first eastern Slavic state. The Kievan Rus was an influential medieval state from the late ninth to the thirteenth century. It disintegrated under the pressure of the Mongol invasion in the mid-thirteenth century. Thereafter, on the territory of modern western Ukraine Galicia-Volhynia Principality was formed. Its Prince Daniel (1238–1264) accepted the crown as “Rex Rusiae” (King of the Rus). In the mid-fourteenth century, Galicia–Volhynia ceased to exist.

In the next few centuries, Kiev (Kyiv in Ukrainian) and most of the territories of the Rus, fell to the Grand Duchy of Lithuania and later the Polish Kingdom. In 1439, Kiev became the seat of a separate “Metropolitan of Kiev, Halych and all the Rus” for all Greek Orthodox Christians under Polish–Lithuanian rule. After the formation of the Polish–Lithuanian Commonwealth in the middle of the sixteenth century, the biggest part of Ukraine fell under the control of the Kingdom of Poland.

As a consequence of aggressive Polish colonization efforts, religious and social tensions grew in Ukraine. The Ukrainian Cossack rebellion and the war of independence began in 1648 under the leadership of Hetman Bohdan Khmelnycky. The Cossacks were free men, very often former runaway serfs, disaffected noblemen, religious refugees or often simply criminals. The Cossacks have obtained today a quasi-mythical status and are often celebrated as Ukrainian freedom fighters. In 1654, the Ukrainian Cossacks turned to Muscovy in search of support in the struggle with Poland. A truce in 1667 left western Ukraine in Poland–Lithuania and eastern Ukraine and Kiev in Muscovy.

In 1654, when Ukraine and Muscovy signed the Treaty of Pereyaslav, Ukraine represented a more advanced culture than that of Russia, but was significantly weaker in political terms. In many ways, the westernization of Russia came via Ukraine. During next few centuries, this imbalance changed in Russia’s favor culturally, socioeconomically and demographically. “The merging of Ukrainians and Russians was implemented through policies of Russification, Little Russianism, and a Russo-centric historiography that sought to blur any differences between the eastern Slavs,” argues Taras Kuzio (1998, p. 8).

Throughout the eighteenth century, the autonomy of Ukraine was liquidated and the country was fully incorporated into the Russian empire. In a final gesture, the Russian army destroyed the Zaporizhian Sich in 1775, which had served for several centuries as the base for the Cossacks and a shelter for runaway peasants. From that time on, the development of Ukraine was closely connected with the destiny of Russia. It was a time of massive Russification, when the inhabitants of Ukraine became *Little Russians*, but at the same time, many Ukrainians became active builders of the Russian Empire.

After the collapse of the Russian Empire in 1917 and the disintegration of Austria-Hungary, the Ukrainian people had a chance for independence. The end of World War I created favorable circumstances for many nations in Eastern and Central Europe to establish their own national states, but finally not for the Ukrainians. Several governments succeeded each other in Ukraine after the Russian Revolution of 1917. This period was extremely chaotic, with ongoing civil war and a lack of strong central authority. On January 22, 1918 in Kyiv, the independent Ukrainian republic was proclaimed. In the former Austro-Hungarian Empire, the Western Ukrainian People's Republic (WUPR) was proclaimed which was united with the Ukrainian People's Republic in January, 1919. The Western Ukrainian People's Republic was opposed by Poland, which had its own territorial and national aspirations. Very soon, the Red Army attacked Ukraine from the east and the Polish army defeated Ukrainian units in the west. Ignoring the Ukrainians' desire for independence, the League of Nations recognized Polish sovereignty over western Ukrainian lands in 1923. Ukrainian independence was very short lived, as most Ukrainian lands were incorporated into the Soviet Union and the remainder in western Ukraine was divided among Poland, Czechoslovakia, and Romania. (Kubiciek 2008, p. 77–79)

From 1922, the Ukrainian Socialist Soviet Republic was officially included in the Soviet Union. At the beginning, the Soviet government inherited the processes of nationalization and modernization. The idea was to develop Ukrainian culture, on the logic that Ukrainian national consolidation could support the building of a socialist state. But very quickly it was turned into massive Sovietization and Russification of the Ukrainian population.

Historical destiny led the Ukrainians through the tragic period of Stalin's dictatorship and repressions, Holodomor (Ukraine's famine) in 1932–1933, and the cruel German occupation during World War II.

The Great Famine of 1932–1933 was an enormous tragedy for Ukraine. The Soviet government forcibly seized grain and other food from the Ukrainian peasant households, and millions of people starved to death. This catastrophe significantly changed the Ukrainian countryside and the ethnic composition in some regions of southern and eastern Ukraine.

The Western Ukrainian lands became a place of intense ethnic conflicts before and during WWII. The Polish government became increasingly authoritarian and nationalistic in the interwar period. Ukrainian schools were closed or made Polish-speaking. Ukrainians were barred from government jobs. Orthodox churches were demolished or converted to Roman Catholicism, and a few hundred thousand ethnic Poles were moved into Ukrainian villages. These actions generated resistance among many Ukrainians who tended to struggle for their rights. However, the crucial component of the resistance was violence, often directed against Poles, in the Ukrainian countryside. As a consequence of Polish government policy, the Organization of Ukrainian Nationalists (OUN) became a major source of political instability within interwar Poland. In response to OUN activities, the Polish government launched a counteroffensive in Ukrainian villages. In turn, the OUN stepped up its campaign, killing Polish officials, and Ukrainians it accused of being disloyal to the cause (Kubiciek 2008).

In 1939, after the German attack on Poland, the Red Army occupied Western Ukraine. The Soviets portrayed the invasion in western Ukraine in 1939 as the reunification of Ukraine. Thousands of Ukrainians were deported to Siberia or killed by the Soviet authorities. This was a reason why some people in western Ukraine welcomed the Germans, believing they would treat the population better than the Soviets.

The occupation of the territories of western Ukraine by Germany in 1941 was seen initially by some Ukrainian nationalists as a liberation from Soviet rule and as a chance to gain independence. So, some nationalistic groups initially collaborated with the Germans. However, the attempt to create a separate Ukrainian state was hopeless. Nazi Germany, although it initially tolerated Ukrainian nationalists, soon arrested leaders of the OUN. In 1942, the Ukrainian Insurgent Army (UPA), a nationalistic group organized initially to fight against the Soviets, began to fight the Germans. Ukrainian nationalists had to fight on all sides: against the Red Army, Nazi Germany, and Polish guerrilla forces. Some radical units of UPA also directed violence against the Poles and the Jews. The Red Army also encountered resistance from the UPA and other nationalist forces. In response to the fighting, the Soviets deported more than two hundred thousand western Ukrainians to Siberia and killed thousands of people in Western Ukraine.

Millions of people in the Ukrainian territories were killed or died during WWII. One-and-a-half million Ukrainian Jews are estimated to have died in the Holocaust between 1941 and 1945. More than two million young Ukrainians were rounded up and sent to Germany to work in factories as virtual slave labor.

The Soviet government deported more than 200,000 of the Crimean Tatars from Crimea who was collectively punished because some Tatars collaborated with the Germans during the occupation. In 1954, the Crimean Peninsula was transferred from the Russian Republic of the Soviet Union to Soviet Ukraine. Since 1991, many Crimean Tatars have returned to their homeland, and more than 250,000 live in Ukraine today. With the occupation of Crimea in 2014 by Russia, they became significantly oppressed by the Russian authorities.

After the Soviet victory in WWII, the western part of Ukraine was united with the rest of the Ukrainian territory. After WWII, Ukraine's industries grew quickly and became an important element of Soviet economic and military power. Ukrainians were largely integrated into the Soviet elite. On the other hand, a strongly dissident Ukrainian national movement emerged in the 1960 and 1970s and became a decisive power for independence demands at the end of the 1980s.

On August 24, 1991, following the dissolution of the Soviet Union, Ukraine declared its independence. On December 1, 1991, more than 90% of Ukrainians voted in favor of independence from the Soviet Union with a majority in all regions.

## Post-Soviet History

An adequate understanding of the current political and social processes in Ukraine requires a better understanding of the nature of the political changes in Ukraine after the collapse of the Soviet Union (see more: Poleyki 2015). The optimistic expectation was that the former republics of totalitarian Soviet state would be quickly transformed into a functioning Western-type model of democracy with a market economy, but it was a much more problematic process.

Independent Ukraine emerged in 1991, largely as a result of political compromise and cooperation between the reformists, the pro-independence part of the local Communist nomenclatures, and the national opposition movement. The national opposition gained some strength during *Perestroika*, but was never comparable to the strong opposition movements in the other Central European states such as Poland. Moreover, Ukraine became independent without any real underlying program of political and economic independence or common vision of national development.

This transition entailed a mixture of old and new elements of a system, rather than a simple replacement of the old by the new. The ruling elites accept elections as a precondition for legitimacy, but controlled the political and economic spheres. The population was generally disappointed by the economic and political perspectives of their country.

Ukraine gained its independence with the unenviable task of undertaking simultaneously a range of crucial tasks. Taras Kuzio (2000) called it the quadruple nature of transition in the republics of the former Soviet Union because they not only to introduce economic and political reform at the same time, but also had to build state institutions and provide redefinitions of national identity. The process includes democratization, marketization, state institution, and civic nation building. “Post-Soviet states such as Ukraine launched into democratization and marketization without the many state and national attributes commonly assumed to be necessary for their success. Not only did Ukraine not inherit a functioning state and institutions but it lacked—and continues to lack—national unity”—states Kuzio (2000, p. 146).

The oligarchic system in Ukraine was firmly established at the end of the 1990s, during the rule of President Leonid Kuchma. It became clear that the post-Soviet nomenclature turned into oligarchy had no vested interest in democratization and Westernization, as this was likely to undermine its dominance over the country’s politics and economy. Ukrainian politics also came to be dominated by a small group of oligarchs who were close to the president of Ukraine and the ruling party.

Like many other post-Soviet countries, Ukraine passed through two stages of transformation. The first stage was during last decade of the twentieth century, when the focus of political and economic processes

was characterized by two key trends: stabilization and adaptation. In the 2000s, a new stage of transformation began. It was a time of economic growth as a result of the rising levels of public aspirations. But at the same time, the resource base of domination by post-Soviet elites, who did not want to share their power and property, expanded. During this period, the possibilities of vertical mobility declined. Thus the process of rotation of Ukrainian elites became much more complicated. The control of resources also allowed the ruling elites to build high barriers for the new actors whose aim was to access the political arena.

A very important aspect for analyzing transition in the former Soviet Union states, in addition to state-building, were the speed and degree of changes. One of the most important features of the Ukrainian post-communist transformation was that in this former socialist state change of both the political and the economic systems had to be accomplished simultaneously.

In the nations of the former Soviet Union, the de-legitimization of the Soviet system was not only based upon values, but, first of all, it was based upon its ineffectiveness and its inability to solve the problems of the everyday lives of ordinary citizens. Democracy as an appropriate political system was chosen by a majority of the people in the former Soviet republics primarily as a tool to improve their own welfare. The existence of these commonly shared values which should sustain the overarching societal culture and identity of a political community was absent in post-communist countries such as Ukraine. But without appropriate public behavior, it was impossible to establish democratic institutions. “Certain public values must presumably exist by the time a country establishes democratic institutions; there will be insufficient time for the values to emerge afterwards” (Reisinger et al. 1994, p. 204).

In the final period of Kuchma’s second term in office, the tensions in the system he had created increased significantly. In the 2004 presidential elections, Kuchma’s successor—Viktor Yanukovich, attempted to falsify the election. This move provoked mass protests by millions of Ukrainians who demanded a new round of voting. As a result of this so-called the Orange Revolution, the opposition candidate Viktor Yushchenko became President of Ukraine in 2005.

After the “Orange Revolution”, hopes for a new political regime and systemic reform of the oligarch-based economy emerged. In early 2005, the new “Orange” government promised radical reforms to make Ukraine an entirely democratic state with a market economy moving toward the EU. However, the new “Orange” government failed to direct the country toward a consolidated democracy and a functioning state. During 2006–2010, Ukrainian politics were stressed by ongoing political crises. The next Presidential election in Ukraine in 2010 was won by Victor Yanukovich. Yanukovich promised to bring political stability and provide economic growth, but instead, he created an even more corrupt and kleptomaniac system.

Most significant changes, both on the level of politics and values in Ukraine, occurred during and after the 2013–2014 “Euromaidan Revolution”. Initially the Euromaidan protests started as a demand for European integration and against the refusal of Viktor Yanukovich and his government to sign the Ukraine-EU Association Agreement. Many Ukrainians perceived this Agreement as a chance for political and economic reform and the rule of law. The main demand was for changes in the political system and not of political leaders. The movement was mainly about hopes of changing the situation in the country, about basic civil and human rights of security, freedom of speech, and the possibility of making their own choices.

Despite the huge changes in Ukrainian society during and after the “Euromaidan revolution” and the ensuing Russian–Ukrainian war, Ukraine is still in the “shadow” of both its communist past and its problematic post-communist transformations. There are few manifestations of this heritage in the economic and political life in Ukraine. First, the weakness of the rule of law is visible, which is clear in the management by the ruling party of state institutions so as to maintain their power and reduce the possibilities for the opposition to take power. Second, a poorly developed market economy with real competition in many important spheres (for instance, the energy sector), where the state and oligarchs who are close to the ruling elite concentrate all the resources in their hands. Big businesses linked with the state institutions (and politicians) are not interested in the introduction of real market reforms that could reduce their influence and challenge their monopoly.



## Post-Soviet Social and Economic Relations

Social change also has a subjective dimension involving people's attitudes, values and beliefs with respect to themselves, others, and toward state, politics, and society. A typical feature of a society in transition is social ambivalence, often expressed as the simultaneous commitment of people to contradictory, sometimes even exclusive, and incompatible values and attitudes.

As society was left disoriented and unable to cope with the rapid changes taking place after the fall of the Soviet Union, informal networks continued to help individuals adjust to the collapse of the USSR and the socioeconomic turbulence. This development implies that there is a strong tradition of distrust in the state and of subversion of formal rules. During Soviet times, informal rules allowed the highly bureaucratized system to function, but at the same time, there was a particularly strong contradiction between the formal and the informal rules and norms. What emerged instead were strong, informal influence groups. These informal groups, not state institutions, were and are the real vehicles of power in the post-Soviet countries. Influence groups act as a shadow power structure that intersects both horizontally and vertically with formal institutions. Furthermore, we have to remember the disparity between formal arrangements and real relations in both Soviet and post-Soviet life. The highly structured, formal and democratized state that has appeared on the formal level bears little correspondence to actual politics in almost all post-Soviet countries.

Corruption, rather than a sign of state weakness, is an essential element of the informal mechanism of power control in Ukraine. It means that corruption is flourishing not only because state institutions are not able to fulfill their functions, but also because many state functionaries use their position to gain benefit and even encourage people to use informal ways to overcome complicated bureaucratic rules. Very often absurd rules and regulations are created by bureaucratic systems on purpose to push people to pay extra money. Additionally, politicians and state functionaries involved in corruption became manageable and dependent on state authorities.

Another problem which had a direct impact on these issues was the low level of trust in state institutions in post-Soviet Ukraine. It is a matter not only of a lack of trust among individuals, but more a lack of trust in existing social and political institutions. Many scholars argue that without interpersonal trust citizens will not follow the rules of the game. Low levels of trust in society can be assumed to decrease the capacity for governance “the level of trust is likely to have indirect effects on institutional change: distrust may make it more difficult to agree on models of change” (Fritz 2007, p. 68).

The values, beliefs, and attitudes toward political and legal institutions fostered during communism, continue to exist in post-Soviet Ukraine. There is general, widespread public cynicism about government and politics, and about what the Ukrainian government’s commitments on paper mean in reality. There is a big difference between the “formal rules” and the way most political institutions actually work in Ukraine. Overall, politics in Ukraine is widely perceived as a corrupt, elite-dominated domain that delivers little to the country.

A century of stateless existence defined the attitude of Ukrainians to state power: distrust in state institutions and the attempt to escape any involvement of the state in their lives. Ukrainians tend to work for themselves, create informal structures and limit the presence of authority as much as possible. This attitude is one of the most visible differences with Russians who rely on state power and tend to support the state. In Russian political traditions and widespread social perceptions, respect for strong leadership and a fear of disorder or anarchy exist. On the contrary, Ukrainians attempt to rely on their own resources and oppose strong state institutions.

Further cultural differences with Russia were determined by the fact that Ukraine received strong Polish and Austro-Hungarian historical influences. These states both had different political practices from Russia and represented European culture. Thus, this heritage is important for many Ukrainians today who are trying to highlight the distinction of Ukraine from Russia.

Moreover, Ukraine was a farming and agriculturally based society in a way Russia never was. Most Russian peasants experienced a kind of slavery until the abolition of serfdom in 1861, while Ukraine

was incorporated into the Russian Empire only in the late eighteenth century. As a result, the Ukrainians suffered from such slavery significantly less. Serfs were peasants who were legally tied to the land and they were economically and legally under the full control of the owner of the land. Ukrainians had a tradition of owning their own land and being responsible for their own farms that never existed in Russia. This history resulted in the development of a more individualistic society in Ukraine.

For most of its history, Ukraine was divided among different empires. State authority was perceived by the population as an external power which brings little good for the population. So, this is still the widespread perception in Ukraine that the state and its institutions do not exist to solve problems, but rather to create problems for the people. Such attitudes still strongly influence relations between business and the state.

## **Ukraine: Between Europe and Asia**

The borderland specifics of Ukraine are determined by its geographical and geopolitical position between Europe and Russia, Orthodox Christianity and Catholicism, European heritage and Asian influence. Lacking natural defences, Ukraine, all along its history, has been the site of frequent clashes, wars, migrations, and cultural influences.

There is a widespread stereotype about the regional division of Ukraine itself. Indeed, there are quite significant differences among the different parts of Ukraine. However, the main patterns of regional divergence do not form a map with clear cut borders but rather create a base for simplification and misunderstanding. Despite some regional determinations, the main dividing lines in Ukrainian society are based not so much on regional identities, but mainly on generational, social and, most of all, on value differences. I would argue that the main dividing line in Ukraine is at the level of values and the choice between European Ukraine and Soviet Ukraine. There is a competition between a “Soviet” mentality and orientations, which translate Soviet (and nowadays Russian) myths and narratives into history, identity, foreign policy, and “Ukrainian” or “pro-European” narratives.

The lack of previous statehood has also complicated the construction process of a common Ukrainian identity. Although it represents only a small portion of today's Ukraine, western Ukraine's different historical experience has direct relevance for contemporary Ukraine, argues Paul Kubiciel. "Because this region long avoided Russian and later Soviet rule, its residents were more prone to develop a distinct Ukrainian identity, and it became the main area for Ukrainian nationalist activity both during and after the Soviet period. Unlike eastern Ukraine, western Ukraine can also claim a stronger "European" identity thanks to its experience under the Habsburgs." (Kubiciel 2008, p. 65)

Postcolonial discourse has an important function in contemporary Ukrainian politics, particularly after the Russian occupation of Crimea and aggression in the east of Ukraine. The negative image of Russia has played a crucial role in the formation of Ukrainian national identity, serving as a unifying threat. The long-lasting dependency on imperial discourse has led to cultural and historical fantasizing, mythologization, and an activation of research on the European component of Ukrainian identity and distancing itself from the Russian and Soviet legacy. The positioning of the "self" in relation to the "Russia"/"Empire" is the key for an understanding of today's postcolonial narratives in Ukraine.

The idea of a European choice plays an important role in present-day Ukraine and became essential for a definition of foreign policy preferences and the construction of a Ukrainian national identity. Support for European integration among Ukrainians was uncertain for years. According to opinion surveys, only since 2011 has public support for European integration prevailed over support for integration into the Eurasian Union.

According to a survey conducted by the sociological group "Rating" June 19 in 2015, concerning the membership of Ukraine in only one international economic union, 51% of respondents considered that it should have been done with the European Union, 16%—with the Customs Union of Russia, Belarus and Kazakhstan, 14%—for another option, and 20%—were undecided. Since September, 2014, the level of support for integration with the European Union has decreased from 59 to 51%, while support for integration with the Customs Union remained the same.

According to a poll conducted by the Kiev International Institute of Sociology in September 2016, about half of the population of Ukraine would vote for accession to the EU. 49% of the residents of Ukraine would have voted for Ukraine's accession to the EU, 25%—against, and the remaining 25%—were undecided or would not have participated in the vote.

## Business Climate

Since the collapse of Soviet system in 1991, Ukraine has struggled to move from a Soviet centrally planned economy to a free market economy. The communist experience and its practices were deeply integrated into the mass consciousness and social practices. We should keep in mind the rural and premodern character of Soviet society. The industrialization of the Soviet period was not equivalent to the modernizing industrialization experienced by Western societies and therefore did not produce equivalent changes in values and behaviors. The acceptance of paternalism is a key element of culture in Soviet-type societies.

The government still plays an important role in economic relations and the business atmosphere of Ukraine. It is important for businesses to have personal connections with people in governing bodies. The rules that the government follows when interacting with businesses are constantly changing and not always clear. This reality frustrates business and prevents the strategic planning and investment.

The “rules of the game” in politics and the economy are nontransparent and regularly change because the existing bureaucratic system and legal framework does not function properly. It is not only because of weak or dysfunctional state institutions, but also because “bad governance”, as Vladimir Gelman (2016) called it, became one of the means to extract rents and maintain power for the state bureaucracy. “Post-Soviet bad governance appears not as a grab-bag of discrete, particular defects but as a consequence of the prevailing political and economic order in these countries.”

The Ukrainian government regularly declares support for foreign business and investment, but in reality, Ukraine still suffers from an

insufficient legal system, corruption, economic and political instability. The World Bank ranked Ukraine 80 out of 185 countries in its Ease of Doing Business index in 2016. Many foreign investors, as well as local businesses, still encounter difficulties at a practical level. These difficulties do not relate specifically to the issue of foreign ownership or investment, but rather to the insufficient performance of state bureaucracy and corruption.

Ukrainians rely on the power of personal contact and prefer to do business with familiar people. The average Ukrainian follows the principles of survival and trusts only the closest circle of people. It is important for many Ukrainians to do business with persons they trust. Also this attitude often translates into the distinction of “us” and “them”. Belonging to “us” is very important in some situations for Ukrainian business culture.

The permanent crises of the post-Soviet period confirmed to Ukrainian citizens the importance of the strategy of survival. This attitude has slightly changed in the last few years. The events during the “Euromaidan revolution” with its huge volunteer movements indicate that the active minority abandoned the survival strategy in favor of European values and cooperation strategies.

Because life in Ukraine is unstable and unpredictable, many Ukrainians are flexible and adaptive, but at the same time, they do not plan their lives as a long-term project. The same is true in business relations. Many enterprises typically plan only for the short term.

Among Ukrainians, the relation to time is quite different from that in a “Western” country. Ukrainians generally have a flexible attitude toward time. The expression “time is money”—is not so relevant for many Ukrainians. On the average level, for Ukrainians relationships are more important than time.

As Katz (2007) supposes, most Ukrainians view negotiating as a zero-sum game in which one side’s gain equals the other side’s loss. Negotiations may become more personal and easier or at least a little more cooperative if strong relationships have been already established between the parties. Indeed, for many Ukrainians, compromise is often viewed as a sign of weakness. Thus, they will try to hold their position unless the other side offers sufficient concessions or shows exceptional firmness.

Social status plays an important role in the perceptions of persons and may influence personal as well as business relationships. Ukrainians pay a lot of attention to social status and roles, formalities, including their dress and appearance especially in a business or bureaucratic environment. Many companies in Ukraine can be quite hierarchical, and people expect to work within clearly established lines of authority. Traditionally, a Ukrainian boss is a strong leader who is expected to hold unchallenged authority. Openly disagreeing with or criticizing bosses is rarely acceptable. That is especially typical for the bureaucratic and state institutions.

Ukraine is still a male-dominated society. While many women are working and a few have made it into senior positions, most are still struggling to attain positions of similar income and authority as men. This phenomenon is related even more to the political sphere. In Ukraine, women's political participation and access to the decision-making process is traditionally a strong challenge. De jure, Ukraine has established the core elements of a legal and institutional framework for promoting gender equality and women's political participation. De facto, not much was implemented in Ukrainian political reality. According to the Ukrainian Women's Fund (2011), women make up the majority of civil servants at lower level positions not carrying significant power and responsibility. But already at the higher positions, we can observe a decrease in the representation of women. Moreover, women constitute only 13.3% (data from 2010 to 2011) of officials with the first and the highest grade of public service, namely those who participate in decision-making at the national level.

Social attitudes, cultural background, and stereotypes do not affect only how women are perceived by the media, political leaders, and the electorate, but also how do they perceive themselves when seeking positions of power. Despite the fact that women make up 54% of the population and the majority of voters in Ukraine, their representation in parliament and other government bodies and remains quite low. This situation remains, even though in 2000 Ukraine joined the UN Millennium Development Goals, and committed to having by 2015 at least 30% of women in representative bodies. According to The Global Gender Gap Index (2014) which captured the magnitude of

gender-based disparities in economic, political, educational, and health criteria, in 2014 Ukraine occupied the 56th place (with an inequality score of 0.706) among the 142 countries studied.

Overcoming gender stereotypes in Ukrainian society is connected first of all with the process of emancipation of society from a traditionalist vision of patriarchal society and the post-Soviet heritage in general.

## Main Challenges for Ukraine

Ukraine is facing a substantial challenge from the corruption that permeates all spheres of politics, business, and society (Neutze and Karatnycky 2007). Following the “Euromaidan Revolution”, the Ukrainian government, as well as NGOs and foreign institutions began to address the issue of corruption through a range of legislative and administrative initiatives against it. Last year, corruption was one of the dominant issues for public debate and major political parties. After the “Euromaidan Revolution”, the new Ukrainian government vowed to step up anticorruption efforts.

According to Transparency International (2016) ranking on the perception of corruption in 2016, Ukraine was ranked 131 among 176 countries (which shows a minor improvement by 2 points compared to the previous year).

According to Freedom House’s (2016) report, Ukraine’s Democracy Score index improved from 4.75 (in 2015) to 4.68 in 2016 (the ratings are based on a scale of 1–7, with 1 representing the highest level of democratic progress and 7 the lowest). Civil society remains the strongest element in Ukraine’s democratic transition (with score 2.25) and corruption is the worst indicator (with score 6.0) according to Freedom House’s rating. This report indicates that Ukraine will continue to face challenges to its statehood and territorial integrity due to Russian aggression and the fragility of its state and democratic institutions. At the same time, the most severe crisis has likely passed, and the country will have more space to implement reforms and encourage economic recovery. However, the greatest challenges remain the level of corruption and the weakness of the rule of law. Additionally, this situation



complicates the political instability and weakness of current coalition in parliament which suffers from internal struggle.

According to World Economic Forum (2017, p. 350), the most problematic factors for doing business in Ukraine are: Corruption; Policy instability; Inflation; Inefficient government bureaucracy; and Access to financing.

Ukraine needs serious judicial reform. As Freedom House's (2016) report indicates, in 2015, Ukraine adopted new anticorruption legislation, created new institutions to implement anticorruption policies, and took steps toward transparency in political party financing and public procurement. At the same time, there has been limited progress to date on removing factors that contribute to corruption, such as overregulation of the economy and the power of oligarchs. Despite these reforms, citizens, businesses, and international observers still remain skeptical about progress against corruption in Ukraine.

According to The World Bank (2016a, b), the Ukrainian economy stabilized in 2016, but significant economic recovery and growth have not yet taken hold due to limited reforms, weak external demand for the main Ukrainian export goods, and the frozen conflict in the east of country.

## Doing Business in Crimea and Donbass

The annexation of Crimea by the Russian Federation took place in 2014. According to the Law of Ukraine "On Creation of a Free Economic Zone of Crimea and Economic Activity in the Temporarily Occupied Territory of Ukraine," the Free Economic Zone (FEZ) Crimea was introduced in the Autonomous Republic of Crimea and Sevastopol for 10 years (Doing Business in Ukraine 2016). In the FEZ Crimea, Ukrainian taxes and charges, as well as the charge for mandatory pension insurance, are not levied. Thus, individuals or legal bodies who are tax payers in the territory of FEZ Crimea are considered nonresidents for tax purposes. Part of the Donetsk and Luhansk regions of the self-proclaimed Donetsk and Lugansk "People's Republics" was recognized as a temporarily occupied territory and at this moment it is impossible to do legal business in that territory.

Russia's occupation of Crimea in March 2014 and its ongoing aggression in eastern Ukraine have hurt economic growth. With the loss of a major portion of Ukraine's heavy industry in Donbas and ongoing violence, Ukraine faces additional pressure on its development. Ukraine's dependence on energy supplies and the lack of significant structural reform have made the Ukrainian economy vulnerable to external shocks.

According to the United Nations Development Programme (2017), the conflict in eastern Ukraine has seriously influenced the national economy and social capital. More than 10,000 people have been killed, and over two million displaced inside and outside Ukraine. The financial and social pressure of supporting a large number of Internally Displaced Persons (IDPs) has further exacerbated the strain on Ukrainian authorities.

## Future Prospects of Ukraine

Ukraine remains an attractive country for investment and international business in the near future. Highly qualified and relatively cheap labor, advantageous geographic location, and rich natural resources make Ukraine interesting for international companies.

Political instability, widespread corruption and the ongoing conflict in the east continue to cast a shadow over the prospects for sufficient reforms and economic growth in Ukraine. Russia's annexation of Crimea and continuing "hybrid war" in the east of Ukraine are serious obstacles in the reforming and stabilizing of Ukraine. Despite the largely frozen conflict in the Donbass, political life stabilized in 2015, and we can observe some progress in reforming the Ukrainian system.

After the "Euromaidan revolution" and Russia's aggression, several surveys and studies (Kulyk 2016) have demonstrated the consolidation of Ukrainian identity and an increase in support for Ukrainian nationhood and independence.

Ukraine has developed a tradition of political pluralism, strong civic institutions, and relatively independent media. However, at the same time, its democratic institutions remain fragile. The latest parliamentary

and presidential elections were found to be “free and fair” by international electoral observers. Civil society remains the strongest element in Ukraine’s democratic transition. Civil society has continued to play a crucial role as a driver of reforms aimed at building a functioning democracy and the rule of law. Judicial reforms are also under way, but it is too early to determine whether they will be successful. The gradual emergence of a competitive market economy in Ukraine’s slow, but stable integration into the global economy has also led to increased economic transparency.

According to The World Bank (2016a, b), the Ukrainian economy recovered modestly by 2.3% in 2016 after contracting by a cumulative 16% in the previous two years. Signs of stronger year-on-year growth emerged in the fourth quarter of 2016. Growth is projected at 2% in 2017 and 3.5% in 2018. The outlook for economic growth remains modest due to significant external and internal threats, but renewed reforms could support higher growth going forward. Significant obstacles remain to accelerating reforms in a complex political environment. Yet there are encouraging signs of progress in a number of important reform areas, and the recovery should also benefit from improving terms of trade. To sum up, Ukraine remains a challenging place for international business, but with plenty of opportunities.

## Bibliography

- Doing Business in Ukraine. 2016. BDO in Ukraine, Report, July 25. <https://www.bdo.ua/en-gb/insights-1/information-materials/doing-business-in-ukraine>. Accessed 23 Apr 2017, Accessed 13 Apr 2017.
- Gel'man, Vladimir. 2016. The Vicious Circle of Bad Governance. *The Russian Reader*, May 17. <https://therussianreader.com/2016/05/26/vladimir-gelman-bad-governance-russia/>. Accessed 23 Apr 2017.
- Global Gender Gap Report 2014. 2014. Geneva: World Economic Forum. [http://www3.weforum.org/docs/GGGR14/GGGR\\_CompleteReport\\_2014.pdf](http://www3.weforum.org/docs/GGGR14/GGGR_CompleteReport_2014.pdf). Accessed 13 Apr 2017.
- Freedom House. 2016. Nations in Transit 2016. [https://freedomhouse.org/sites/default/files/NIT2016\\_Ukraine.pdf](https://freedomhouse.org/sites/default/files/NIT2016_Ukraine.pdf). Accessed 23 Apr 2017.

- Fritz, Verena. 2007. *State-Building: A Comparative Study of Ukraine, Lithuania, Belarus, and Russia*. Budapest: CEU Press.
- Katz, Lothar. 2007. *Negotiating International Business: The Negotiator's Reference Guide to 50 Countries Around the World*. Charleston, SC: Booksurge.
- Kubicek, Paul. 2008. *The History of Ukraine*. London: Greenwood Press.
- Kulyk, Volodymyr. 2016. National Identity in Ukraine: Impact of Euromaidan and the War. *Europe-Asia Studies* 68 (4): 588–608.
- Kuzio, Taras. 1998. *Ukraine: State and Nation Building*. London: Routledge.
- Kuzio, Taras. 2000. The National Factor in Ukraine's Quadruple Transition. *Contemporary Politics* 6 (2): 143–164.
- Kyiv International Institute of Sociology (KIIS). 2016. *Ukraine Turns 25: Achievements and Defeats*. <http://www.kiis.com.ua/?lang=eng&cat=reports&id=643&page=3>. Accessed 23 Apr 2017.
- Neutze, Jan, and Adrian Karatnycky. 2007. *Corruption, Democracy, and Investment in Ukraine*. The Atlantic Council Policy Paper, October.
- Plokhyy, Serhii. 2015. *The Gates of Europe: A History of Ukraine*. New York: Basic Books.
- Polegkyi, Oleksii. 2015. *The Media and Political Discourse in Post-communist Ukraine*. Ph.D. thesis. Belgium: Antwerp/Wroclaw University.
- Reisinger, William M., Arthur H. Miller, Vicki L. Hesli, and Hill M. Kristen. 1994. Political Values in Russia, Ukraine and Lithuania: Sources and Implications for Democracy. *British Journal of Political Science* 24 (2): 183–223.
- Transparency International. 2016. Corruption Perceptions Index 2016: Ukraine. <https://www.transparency.org/country/UKR>. Accessed 23 Apr 2017.
- Ukrainian Women's Fund. 2011. Women's Participation in Politics and Decision-Making in Ukraine: Strategy Paper. OSCE.
- United Nations Development Programme (UNDP). 2017. <http://www.ua.undp.org/content/ukraine/en/home/countryinfo/>. Accessed 13 Apr 2017.
- World Bank. 2016a. Ukraine: Economic Update, September 22. <http://www.worldbank.org/en/country/ukraine/publication/ukraine-economic-update-fall-2016>. Accessed 23 Apr 2017.
- World Bank. 2016b. Ukraine: Economic Update, September 22. <http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=UKR>. Accessed 23 Apr 2017.
- World Economic Forum. 2017. [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf). Accessed 13 Apr 2017.

# Russia: Europe in Asia

Jérôme Dumetz and Anna Vichniakova

## Part 1: Fundamentals

### Main Historical Events

Russia has a long and rich history. An insight is necessary to comprehend its culture, however, several elements render its description difficult:

- The absence of written language before the ninth century. Literally speaking, prehistorical Russia ended with the creation of the Cyrillic language in the ninth century by the monks Cyril and Method. No proven documents are available prior this date. The first scientifically proven document is the Priomy, which dates from the late eleventh century.

---

J. Dumetz (✉) · A. Vichniakova  
Plekhanov Russian University of Economics, Moscow, Russia  
e-mail: jerome.dumetz@clamart.net

- The second reason lies in the fact that Russian rulers (they were not the only ones) had a tendency to rewrite history. The chronicles were written in imperial or in Soviet Russia consequently stressed one aspect of history over another according to their then-current situation.
- Finally, the remote geographical location of the country (extreme East of Europe, West of Asia and North of ancient trade routes) reduced the number of foreign travelers and ambassadors, usually a precious source of knowledge of ancient history.

## **The Birth of a Civilization, Kievan Rus'**

While some prehistoric hunters have been traced back to 40,000 BC in the Don river region, modern Russian History begins usually with the reign of Vikings (also called Varangians) who either took power or were invited to do so (historians are still divided on the subject.).

One of the founding events is the creation of the free city of Novgorod in the late ninth century. The first cities of what was to become Russia always enjoyed a lively trading life: fur, amber, hemp, or honey were the main tradable resources of the region, which was on a trading route between the Black and Baltic Seas.

The Christian religion appeared in Russia when Prince Vladimir imposed his faith on a pagan population in a territory which represented a fraction of what Russia is today. By the middle of the twelfth century, the region was organized into principalities loosely united around the "Grand Prince of Kiev and all Rus".

In less than 30 years, Mongol (or Tataro-mongols as referred to in Russian) fighters took over all the principalities of Kievan Rus' in the thirteenth century. Following, their failure to take over the rest of Europe (thick forests are believed to be the most effective barriers), they retreated and kept the Rus' lands under their yoke. Ruling indirectly, they relied on the Princes to keep order and to collect taxes.

Slowly the power of Kiev declined and the center of power moved North, to the region of Moscow, a city created in 1147. When Constantinople fell to the Turks in 1453, The Russian Orthodox Church declared Moscow the "Third Rome", that is the center of

civilization that was built after the fall of the two previous “Romes”: Rome and Constantinople. Moscow would then become the center of the country for several centuries.

## **Fifteenth Century—the Rule of Moscow, the End of Democracy**

In 1480, almost 300 years after their conquest, the Tatars were defeated at Ugra by the troops of Ivan III, Prince of Moscow—without a battle. By the end of the fifteenth century, all but a few principalities were under the control of Moscow. With a newly united territory, Ivan III started reforms, such as the instituting of serfdom. At a time when most of Western Europe was coming out of serfdom, Russia enforced it on peasants who had enjoyed relative freedom before. In a way, this was the end of a sort of democracy in Russia (Fig. 1).

When questioned about the most democratic time in Russian History, it is tempting to point to the times of Novgorod, with cases of elected (or invited) rulers such as Alexander Nevsky. Moreover, Novgorod is not the only town in the north of Russia to have enjoyed such status, Pskov, a city near Novgorod, is another famous one.

Forceful ruling of the population is therefore not as natural in Russia as some claim. The old Russia was a country ruled by councils of representatives, free craftsmen inhabited the cities, and the villages in the countryside were organized into communes called Mir, where decision-making was collective. Once the taxes were paid to the Prince, the citizens had the possibility to keep some profits.

It all ended with the permanent linking of the peasants to the land they were cultivating. In 1646, a law forbade most of the peasants to move freely (North of European Russia, e.g., Archangelsk region, and all the territories eastwards from the Ural Mountains never had serfdom). This attachment to the land never really ended, as the serfs were still forced to reimburse their land rent after the abolition of serfdom in 1861 and subsequently forced into Kolkhoz when the Soviets took power. Only the Cossacks, known for the fighting skills, retained relative freedom until the Bolshevik revolution.



Fig. 1 Western part of Russia ([http://d-maps.com/carte.php?num\\_car=30398&lang=fr](http://d-maps.com/carte.php?num_car=30398&lang=fr))

## Sixteenth Century—Ivan IV, the Terrible

The grandson of Ivan III, Ivan IV, took the Russian throne in 1533 at the age of three. At 16, he crowned himself “Tsar of all the Russias,” becoming the first ruler of Russia to take this title derived from the Latin “Caesar”.



Ivan's reign is probably one of the most famous in Russia and abroad, but also the most mysterious. Handsome and talented, he was absolutely loved by his people for clever ruling and for finishing the reconquest of Russia by taking Kazan and Astrakhan from the remaining Tatars.

He ordered the construction of St Basil's Cathedral in front of the Kremlin to celebrate this victory, and launched the conquest of Siberia, which was until then largely an unexplored territory... But then, everything went wrong. His beloved wife died under mysterious circumstances, probably poisoned. Ivan's reign became *terrible* after her death.

Tortures, persecution, and massacres became legendary and gave him his notorious nickname. He is also known to be the first ruler to create what can be called a Secret Police by forming the "Oprichnina", a gang of thugs who took possession of an entire district outside the Kremlin and reported only to the Tsar. He remarried many times and lived a recluse, paranoid life outside the Kremlin walls, where he is believed to have killed his son, Ivan, in a fit of rage.

This image of Ivan the Terrible is the one favored by most Russians and their rulers. He incarnates the ultimate tyrant, being also the founder of Greater Russia. In order to support the theory that Russians like to be ruled by tyrants, it is often said that after abdicating in the middle of his (already terrible) reign, Ivan IV was begged by the boyars (old Russian aristocrats, advisors to the Tsar through the assembly called the Boyarskaya Duma) to come back to rule them again...

His death brought chaos to the country, known as the Time of Troubles, which saw many power struggles between the boyars (the Tsar was officially elected from among them), some adventurers such as the two false Dmitris (two usurpers, who managed to seize power in Russia, each claiming he was the son and heir of Ivan the terrible), and foreign powers such as Poland.

Finally, a people's revolt defeated the Poles and called for an Assembly of the Land to elect a new leader. As seen later, with Napoleon's war or WWII, it was only the first in a long list of popular uprisings that have often saved the country.

## 1613—The Romanov Dynasty, Peter the Great

From an influential boyar family, Mikhail Romanov was chosen in 1613 to become the new Tsar. His dynasty ended 304 years later, with the abdication of Nikolai II in 1917.

The seventeenth century was a time of territorial expansion. After the conquest of Siberia, Smolensk, and Kiev also became part of the Russian Empire, as the Russians came to help the Cossacks fight off the Poles.

Probably, the most famous member of this dynasty is Peter I, the Great. He is the true Russian monarch the population likes to remember. A giant 2 meters tall, he turned Russia for the first time into a power the world had to reckon with.

His fame is deserved as he transformed Russia into a modern state and proved to be a skilled ruler in the process. In terms of territorial expansion first: Dreaming of opening the country to the West and fascinated by the Navy, he seized the Gulf of Finland and lands on the Baltic Sea from the Swedish Empire (Treaty of Nystadt in 1721). He also took over the port of Azov from the Crimean Tatars on the Black Sea. From Tsar, the Senate named him Emperor of All the Russians after his victory over the Swedes.

Geopolitically, he engaged in active relations with the West, ending the relative isolation of the country. His culminating point was his trip to Europe, the first ever by a Muscovite Tsar. He returned from Europe with modern ideas, knowledge in shipbuilding, and more than 1000 experts from various countries.

However, his longest lasting mark on Russia stemmed from his shaping the country. He created numerous institutions, such as the Naval Academy and the Academy of Sciences. In 1703, he started the construction of a new city in the swamps between the Ladoga Lake and the mouth of the Neva, which was to become the new capital Saint Petersburg. All means were used as the city was literally built on the corpses of convicts, forced-labor peasants, and requisitioned craftsmen. An estimated 30,000 people died during the first few years of construction.

Peter's reign, full of splendor, was not, however, an enlightened one. Fond of military order, he instituted the Table of Ranks in order to have the Nobility at his complete disposal. At that time, the only activity

available to noblemen was a career in the military. They acquired title, land, and serfs through military bravery. Under such a system, the Tsar, as ultimate power, could make or destroy any career at will.

He also created his own understanding of a parliamentary monarchy by setting-up a Senate. However, democracy (as a system in which the population chooses its own ruler) was absent from this move as all the members of this Senate were appointed by the Tsar.

He also made sure that the Orthodox Church would remain under his direct influence by not replacing the Patriarch at his death and by creating a Holy Synod, also composed of members appointed by the Tsar.

This transformation of the country went so far as to modify the way people dressed and spoke. Strongly influenced by his trip to Europe, Peter ordered men to shave and to wear precisely designed German types of uniforms. Failure to shave or to have the proper number of buttons on one's redingote was fined. (The table of ranks had 14 different levels and each had its own uniform...) Peter also strongly suggested that the nobility learn and speak European languages such as French or German. Wishing to reshape Russia according to modern standards, he introduced a new calendar in 1700 (Julian, 13 days behind the Gregorian calendar used in the Catholic part of Europe). Until the decree, the years were counted from the then-believed creation of the world, in 5509 BC. The following day of December 19, 7208 happened to be January 1, 1700!

Having decided to turn Russia into a new powerhouse, Peter subsidized many new industries using forced labor, that is, serfs, and subsequently created numerous new taxes. For instance, near St. Petersburg, the Petrodvorets factory is still operating today, making the famous Raketa watches.

Yet, maybe even more significant is the launch and support of the first Russian industrial region, the Urals. Indeed, a new country was created during his reign. However, the massive industrialization of the country, the continuous warfare and the construction of Saint Petersburg cost Russia dearly both financially and in manpower: At the end of his reign, public finances were in disarray and the population had declined by 20%...

Peter is rightfully remembered as a great ruler. However, in order to better understand Russia today, one must look not only at the results, but also the means of Peter's reforms.

## 1762—Catherine II

Like the few women in present day Russian politics, Catherine II, and her historical image suffered from two handicaps: She was a woman, and she was not Russian.

She came to Russia at the age of 15, to marry future emperor Peter III. She quickly adapted to Russian life by learning the Russian language and by converting to Orthodoxy. Russia, like England, had no obligation to have men as sole rulers. Thus, Catherine seized power in 1762 at the age of 33, forcing her husband, Peter III, from the throne.

Her reign is renowned mainly for the confirmation of Russia as a world power, the expansion of the Empire, and the enlightenment of the court. The expansion of the empire led to the completion of the "gathering of Russian lands." Belorussia was conquered from Poland while Crimea would become part of Russia in 1792 from then on, until 1954.

This period was also one of strengthening of the authoritarian regime. The Nobility received more powers over their serfs while—subsequently—the well being of the population (increasingly non-Russian) was neglected. While other powers were having their revolutions, Russia was going against the European flow, increasing serfdom among peasants. When the French revolution ended monarchy, Catherine's Russia broke diplomatic relations.

## Nineteenth Century—Alexander I, Napoleon, and the Decembrists

It is not possible to present the reign of Alexander I without talking about Napoleon's invasion of Russia.

Alexander spent most of his reign at war against Turkey, France, England, Persia, or Poland. The decisive war, however, was against

Napoleon. The two Emperors, respectful of each other, understood after Tilsit (1807) that each power could have its own destiny. Both spoke French and at that time the Russian aristocracy saw France as a model.

Therefore, when in 1812 Napoleon launched his attack on Russia, the country was literally taken aback. Despite an early advantage, Napoleon made several misjudgements: the severity of Russian winter, the determination of the Russian people and the typhus then endemic in the eastern lands of Europe. Most of the soldiers of the “Grande Armée” were not French and were not fighting for their motherland. As Napoleon found razed village after razed village (a brilliant idea of Kutuzov), the strength of his army eroded. The final act in this protracted play was Moscow. Although Napoleon did finally take the city (which was not the capital), his troops were exhausted and it took only a spark to reverse destiny.

A few Russian patriots set Moscow on fire and Napoleon had no other choice but to retreat. Amid terrible weather conditions, the “Grande Armée” started what would become the famous “Retreat from Russia”.

Later, Russian troops even stayed in Paris for more than a year before the Treaty of Paris was signed in 1814. During all this time, the officers had the opportunity to observe what a modern, enlightened (though not democratic) country looked like, even when defeated. Upon their return to Russia, a group of officers plotted to modify the regime. This small group of less than 30 officers was mainly asking for limited changes such as a stronger parliament and the emancipation of the serfs. Only a few extremists were calling for the abdication of the Tsar.

However, the victory over Napoleon was seen in Russia as symbolic of the all-mighty power of the Tsar and the Orthodox Church. These liberal ideas came to an end in December 1825 (hence the name *Decembrist*), when there was an attempt at revolt against the new Tsar, Nicholas I. The officers involved were executed, deported to Siberia, or deprived of their titles and estates. This reaction was enough to calm any desire for reform for quite some time.

## Alexander II and Alexander III

Alexander II is a Russian Tsar who, unfortunately, is not well known abroad. He became Emperor in 1855, before the end of the Crimean war. This war, lost to Great Britain, France, and Turkey, was a blow to Russia's prestige. Russian inadequacy in military equipment and tactics was strongly resented in the country.

The modernization of the country was an absolute necessity. After much hesitation and lobbying by the Nobility, a law was passed in 1861 which abolished serfdom. Rightfully seen as a step toward more justice, the terms were a far cry from complete equality or total freedom. Indeed, serfs were free and could own their land, but this land was given to them (purchased from the land-owner with a government-guaranteed loan) was often too small. Moreover, the peasants still had to reimburse their plots by annual payments. Obviously, Russian peasants were still far from the freedom they had enjoyed before the implementation of serfdom.

This apparent openness actually masked deeper conflicts within Russian society. A number of secret organizations with revolutionary ideas mushroomed in the 1860s and 1870s. In the cities, the tempers flared and a number of government representatives or Nobles were killed. In reprisals, revolutionaries were deported or executed. In 1881, after several attempts, a bomb in St. Petersburg fatally wounded the Tsar.

His death, surprisingly, created the opposite effect to the one expected by the plotters. Alexander III, the new Tsar, drew back from the upcoming reforms and a new conservative cycle started. The *zemstvos* (local assemblies) lost much of their power, education was restricted, and peasants were again under the direct influence of the former landlord or the representative of the government (often the same person).

Various economic and administrative reforms of these times (particularly the abolition of serfdom), however, created impressive economic growth for Russia. Loans were proposed to peasants to buy land and at the turn of the century, only 20% of the land was owned by the nobility.

However, the living conditions of the peasantry remained poor. In addition to duties and taxes paid to the state, the inefficient agrarian

techniques gathered large numbers of peasants on small land plots, creating poverty for all. The anachronism of the village commune, where profits were distributed evenly prevented any entrepreneurial spirit.

Capitalism, nevertheless, was developing in the country. The construction of railroads with the help of foreign techniques and capital (mainly from France and Germany) shaped a new industrial face for Russia. At the turn of the century, Russia was a leading exporter of oil, metal, and textiles. The reforms of Sergei Witte, the first minister of Transport (hence, he was credited with the construction of the Trans-Siberian train line), then Minister of Finance and finally was named Prime Minister, increased the attractiveness of Russia in for eign eyes. Manufactures flourished in cities, hence leading to a massive inflow of peasants to the urban centers. Witte's aim was to create a stable monetary system, neither undermined by the constant wars (Crimean, Russo–Turkish, Russo–Japanese) nor by corruption. By adopting the Gold Standard, he assured Russia the world's largest gold reserves thanks to favorable conditions for foreign investment while raising customs tariffs and establishing a State monopoly for the sale of alcohol.

## 1905 Revolution—Stolypin's Reforms

The economic recession of 1900–1903 (during which about 30% of the labor force lost their jobs) and the defeat of the Russian Empire in the Russo–Japanese war of 1904–1905 led to the Revolution of 1905–1907. Massive revolutionary revolts started after the so-called Bloody Sunday,— January 9, 1905, when about 1000 people were shot to death and 3000 wounded by the army during a march.

These general strikes and violent peasant revolts marked the “dress rehearsal” for the October revolution. Opposition movements increased their visibility. A new party, created by liberals, the Constitutional Democratic Party (the Cadets), demanded the right to be represented in the parliament (the Duma). The Social Revolutionaries (the SRs)—a party of the peasants, was asking for the creation of a constitutional assembly. Lenin's Bolsheviks (extreme wing of the Social Democrats) called for an “uninterrupted revolution”.

The Tsar was forced to give in and granted his people some rights in the October Manifesto: freedom of speech, of the press, of assembly and of association.

A conservative and a monarchist, Petr Stolypin became the first minister of home affairs and then, in 1906, Prime Minister. His famous agrarian reforms aimed at the creation of a social class of farmers (American type), who would be freed of the commune and become owners of their land. While not sufficient, their results were impressive: 15% more cultivated land (1901–1913), one million new settlers East of the Urals (Siberia and Far East) making Siberia an important grain-producing area. The production of raw cotton, sugar beet, potatoes, and livestock also increased significantly.

Although the growth of industrial production was obvious, Russia remained an agricultural country with only 6% of its exports being manufactured goods. Stolypin was hoping for “twenty years of domestic and foreign peace”, promising, that people “would not recognize present day Russia.” The country enjoyed record growth rates, along with the USA and Japan, two other future world powers. However, instead of 20 years, there were only 5 years of peace, which proved to be far from enough to modernize the country: in 1914, the Great War was about to change the course of the country again.

## The First World War

Despite the profound changes it triggered, World War I is often perceived in Russia as a minor event. Russians take it mainly as one of the roots to the revolutions of February and October 1917. With 15 million peasants conscripted by 1917, the war created enormous unrest among the population. The result of which was the revolution of February 1917, when the tsar Nicholas II abdicated, and first the Duma took power, with the formation of a provisional government a few days later.

The provisional government appeared to be paralyzed and inefficient: the unpopular war continued, and the “land issue” (that is, providing peasants with land) was not addressed. On October 26 (November 7) the provisional government fell to a Bolshevik coup and all the key



official institutions in Petrograd were taken over by the sailors and workers organized by Lenin and Trotsky. The first decrees of the new government were the Decree on Peace, i.e., the withdrawal of Russia from the war, and the Decree on Land that is the abolition of land ownership and redistribution of it among the peasants, which was never carried out.

## 1917–1991—Soviet Russia

Russia has always been more or less detached from the rest of the world; with the Bolsheviks taking power in October 1917, this isolation grew.

The Soviet Union, created in 1924, overcame gradually the consequences of World War I, the revolution and the civil war that broke out afterwards. The policy of War Communism introduced administrative measures of control over the economy. Complete nationalization, food distribution (forcing peasants to surrender all foodstuffs to the government which distributed them in the towns, thus causing revolts in the countryside), work control in the industry (workers controlled the production process), and hyperinflation (created purposefully, to rid the country of money...) Russia had become, in a few months, a communist state.

War communism failed, even by Lenin's standards. In 1922, in a clear reversal of policies, his government launched the so-called New Economic Policy (NEP), that is "state capitalism". A little known example of economic cooperation at the time was that the Bolsheviks let Germany have some military enterprises on Russian soil, as it was not allowed to have a defence industry after World War I.

In the second half of 1920s, with the revival of the economy, Stalin's administration turned to industrialization of the country "to make it strong to fight with capitalists and foment world revolution." Industrialization was carried out at the expense of the peasantry, as the state established low prices for agricultural products and high prices for industrial goods.

In 1929, collectivization started—a dramatic page in Soviet history, when millions of people were moved from their homes, imprisoned, and starved at the beginning of the 1930s, especially in Ukraine. The NEP was cancelled and a planning system was established. Quite

tellingly culturally, while all the 5-year plans had been always reported as fulfilled ahead of time, in reality, none of them had ever been completed. Another characteristic of the Soviet economy was the massive use of prisoners for the construction of railways and canals. Prisoners often worked in mines, as they were an extremely cheap labor force. Many of them died.

Only in the second half of the 1930s were collective farmers, members of “kolkhoz” allowed to cultivate small plots of their “personal” (yet, not “private”) land, and sell the excess production on local markets. Agriculture for decades could not overcome the consequences of such a policy. Indeed, it never recovered. Although reported otherwise, in reality, the economy had hardly reached its pre World War I level by the beginning of World War II.

For most Russians citizens, the “Great Patriotic War” began in 1941 with the attack of Soviet Union by Hitler and ended with the Red Army taking Berlin in April 1945. The parts of the war before (Belgium, France, etc.) and after (Pacific Rim) are largely unknown, the Molotov-Ribbentrop agreement is most downplayed and the various battles engaging the Allies around the world (Northern Africa, Arctic, Overload, etc.) are considered as secondary to the effort produced by the Soviet Union. As of today, it remains a touchy topic to discuss.

## **Postwar Soviet Union**

After the war, the Soviet Union continued its policy of isolation from the Western world. The Yalta conference in 1945 legitimated the de facto control of the newly formed eastern block, countries liberated from Nazi occupation by the Soviet troops. The Marshal Plan, while proposed to all European countries, was refused by the ones influenced by Moscow. The Cold War began soon after.

Already in the 1930s the Soviet population was repressed in large numbers, The iron fist of the all-mighty leader, Joseph Stalin threatened all categories of people, from scientists and military officers to ordinary citizens. Repressions continued after the war, targeting also people from the territories occupied by Nazi Germany easily accused

of collaboration. Only Stalin's death in March 1953 stopped massive arrests. It still took a few years for Nikita Khrushchev, the new Secretary General, to condemn the policy of Stalin and the cult of his personality at the twentieth communist party congress in 1956.

Khrushchev's time, known as "the Thaw", is remembered for its de-Stalinization and for some liberalization of the internal and external policies of the USSR. As a response to the creation of NATO, the Soviet Union initiated the Warsaw Pact in 1955, which was put to use to suppress the Hungarian revolts of 1956, and in 1968 in Czechoslovakia. The COMECON, in 1962 was the answer to the newly formed EEC in the economic sphere.

While cooperation with Western countries was very limited, it did not end completely. The most successful project is probably the localization of the popular Italian carmaker Fiat in Togliatti, in the center of Russia in 1970. Millions of Lada cars were subsequently produced in this gigantic factory. The country went on developing heavy industries, ignoring the needs of its citizens, and creating a lack of goods of common consumption (a phenomenon called "Deficit"). This led to a flourishing black market and to widespread corruption. In some fields, the Soviet Union achieved considerable success, in particular in space technology and military production. Yuri Gagarin became the first man to orbit the Earth in 1961.

Economy-wise, the 1970s and the 1980s were times of stagnation. While all production plans were officially met and even exceeded, the reality was the opposite. This entire masquerade came to an end with Perestroika. For the first time, people could see the futility of their efforts. The shock was terrible and the repercussions are still being felt. Although few believed in the bright idea of Communism by the 1980s, how can one not be disillusioned and therefore nostalgic when one discovers that all the sacrifices in the name of the march toward Communism were in vain?

## **Perestroika and the New Russia**

Mikhail Gorbachev, who became General Secretary of the Communist Party in 1985, tried to democratize the existing socialist system through

two major reforms: Perestroika (economic reconstruction, i.e., liberalization) and Glasnost (transparency, as opposed to corruption and secrecy on everything concerning “state interests”).

While Gorbachev is highly respected in the Western world for having lifted the “iron curtain” and having brought down the Berlin wall, he is generally hated in Russia for “having destroyed the Soviet Union” and for not being able to better the economic situation in the country. With an oil price well below 20\$ per barrel and an economy in disarray (staple food rationing had been introduced in some parts of the country already at the beginning of the 1980s) few alternatives were indeed possible. Last but not least, he is still criticized for an antialcohol campaign, which saw bootlegging reach an all time high. Paradoxically, only a few people associate this policy with the surge of life expectancy at the same time...

In August 1991, after the unsuccessful coup-d'état by communist hardliners, the first and only President of the USSR had to step back. The disintegration of the Soviet state had already started with the election of Boris Yeltsin as President of Russia in June of that year. Eight years later, the diminished and unpopular Yeltsin would step down, appointing the then Prime Minister Vladimir Putin as his successor in 1999.

Elected President in 2000, reelected in 2004, Vladimir Putin swapped his place with long-term right-hand Dmitry Medvedev in 2008 but continued to exert strong influence, in particular, in foreign Affairs. The two swapped places again in 2012, hence bypassing the constitution limit to 2 “consecutive” terms as president. Because the term had been expanded in 2008 to six years, the next election is due only in 2018.

The fourth period of leadership of Vladimir Putin has transformed the country. The new term in 2012 saw massive demonstrations in major cities from citizens complaining about what they considered unfair parliamentary elections. Several controversial laws have been voted, all directing the country toward social conservatism (in particular regarding homosexuality or religious Blasphemy).

But the rumbling mostly took place abroad. The so-called Euro-Maiden revolution of 2013 in Kyiv led to the ousting of then president Viktor Yanukovich who fled to Russia in February 2014. Amid the turmoil that spread across Ukraine, Russian soldiers stationed in

Crimea took over the strategic buildings of the autonomous region. In this unconventional situation, a controversial referendum demanding Crimea's annexation to Russia was organized in a few weeks' time, on March 16. With an official result of 95% favorable, the territory joined the Russian Federation almost immediately. On March 27, 2014, the UN General Assembly approved a resolution describing the referendum leading to the annexation of Crimea by Russia as illegal.

Armed pro-Russia separatists supported by the Russian authorities have also declared independence in the Eastern region of Lugansk and Donetsk, fuelling a regional war against Ukraine's national army supported by private militias composed of volunteers displaying strong nationalist opinions. According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the conflict, by 2017 had claimed nearly 10,000 lives.

Finally, Russia has regained geopolitical attention through its engagement in the Syrian conflict since 2015, militarily supporting the Assad regime against the rebels, illustrating the decades-long traditional alliance between the two countries.

## **Constant Variables**

Three variables emerge when an overview of Russian history is conducted:

### **The Central Role of the Government**

From the Kievan Rus' until today, Russia has been led by leaders who play a central role in the direction and development of the country. While Peter I and Catherine II come immediately to mind, Alexander II and, of course, the Soviet figures of Lenin and Stalin can easily complete this list.

While citizens from other countries may expect changes and development to come from regions or from individuals (or companies), Russians have always been presented with one option: The Government

is in control. After a few years of wandering, it appears the current state of affairs has returned to this variable, with the Russian government actively involved in divergent fields such as natural resources development and trade, High-Tech development' or media production.

## **A Non-equalitarian Society**

By its very nature as an absolute monarchy, the Russian empire was never egalitarian. The Tsar had the literal right of life or death over any living being in the empire. Boyars were no exception to the rule and quite a few regretted dearly their disbelief in Ivan IV, the Terrible.

It was only in 1861, that Alexander II abolished serfdom, which concerned 60% of the population. But the newly freed serfs remained strongly attached to their masters, as they had to "buy back" their land, at a life-long cost. Up to 1917, inequality was a fact of life.

The enormous power of the ruler over all the subjects was thus engraved in stone. At one end of the spectrum was the poor, right-less serf, and, at the other end was the absolute, deified Tsar. In between, stood a multitude of ranked citizens, all bowing to the Tsar.

The organization of Russian society today, looks much the same. The right-less citizens are pensioners or dwellers in remote villages, while a number of state employees, officials, business people, and oligarchs still follow some virtual ranking. Above everyone stands the President who can decide virtually everything within the borders of the country.

## **An Ambiguous Relationship with Western Europe**

Napoleon did more than simply attack Russia. He also ended a century of the intellectual, cultural and moral connection of the Russian élite with the Western one. Ever since, Russia has been questioning its links to the West. However, the leitmotiv of Russia's being a "third Rome" is counterbalanced by an equally old obsession of catching up with the West and using it as a model to follow.

Peter wanted Russia to become European. Foreign languages such as French and German were spoken in many noble families until the early

twentieth century. Foreign companies were actively courted to invest in the country throughout the nineteenth century. On the other hand, by numerous accounts, the Soviet leadership pledged to impose their system on the West.

Today, most Russian politicians continue to feed this ambiguity with very strong anti-Western public stances in parallel with organizing elaborate ways to purchase property abroad, to send their children to study abroad, and even to acquire foreign passports.

## Russian Identity Today

It is claimed that Alexander Pushkin declared that “Russia is unfinished”. As of today, it sometimes looks like the country suffers a permanent identity crisis. The reference in this “nation building” has become a mix between an idealized tsarist period, and the positive results of the Soviet system. The role models are not clearly identified: Few heroes, such as Alexander Nevsky or Yuri Gagarin have received a plebiscite.

References are also mixed. The 90s saw many symbols from last decades of the Russian empire brought back into fashion. The double-headed eagle was quickly brought back, the Fabergé eggs were given back to the Kremlin, a monument to the Tsar’s family shot dead in Yekaterinburg was built and their ashes were brought back to St. Peter and Paul cathedral in St. Petersburg.

However, a visitor in Russia cannot miss the obvious references to the Soviet past nowadays. Since the beginning of the 2000s, it appears as if the country has decided to rehabilitate Soviet symbols such as the anthem of the Soviet Union that was reintroduced in 2000 (with modified lyrics written by the original author!). Many billboards feature Soviet-style design and font, restaurants appeal to Soviet memorabilia with concepts like the “Soviet Dinner,” “Soviet Café,” or “Stolovaya” (Russian equivalent for canteen). More than 20 years after the fall of the Soviet system, and despite a number of design changes, Aeroflot Russian Airlines still bears the hammer and sickle on its logo and on its uniforms. This return of Soviet symbols in Russian society should not be ignored as they showcase the ambivalent feelings many in the

population have about the past. It must be noted that such tolerance toward Soviet times is mostly limited to Russia; none of the Eastern European countries that were formerly under Soviet control display it. Quite the contrary, monuments and museums condemning the Soviet system exist in many ex-communist capitals such as Riga or Prague.

As far as the organization of society is concerned, it looks more and more like that of tsarist times: Religion is a branch of the ruling power, “Oligarchs” enjoy a proximity to the country’s leadership very similar to the “Boyars” of the past, commoners are being deceived (such as the Russian social welfare monetization of 2005) and the President has a level of power witnessed only in a few non-monarchies.

To our mind, the political structure of Russia today resembles that of the feudal system, with a fragile tsar maintaining the tensions among the various forces (bureaucracy, security forces, nationalists) in a status quo meant to safeguard his regime. It would be against all odds if the near future sees a different type of regime but, as events in Ukraine in February 2013 showed, by definition changes of regimes are unpredictable.

## Geography

Russia is big, very big. At least from a geographical point of view, there is no bigger country in the world. With a surface of 17,075,400 square kilometres (6,592,800 sq mi), it covers more than one-eighth of the Earth’s inhabited land area. For the sake of comparison, imagine one country comprising India, the United States of America and the entire European Union. Russia is this big, and Russians are proud of it (Figs. 2, 3).

Actually, the vastness of the territory is probably the single characteristic the Russian population most identifies with. When talking about the country, references to the size of the land come instantaneously, sometimes with a little link to the topic. While the military or ideological might of Russia has faded away since the end of the USSR, the size of its territory has not. The underlining rationale is:

Big territory = Large population and resources = Strong political and military power



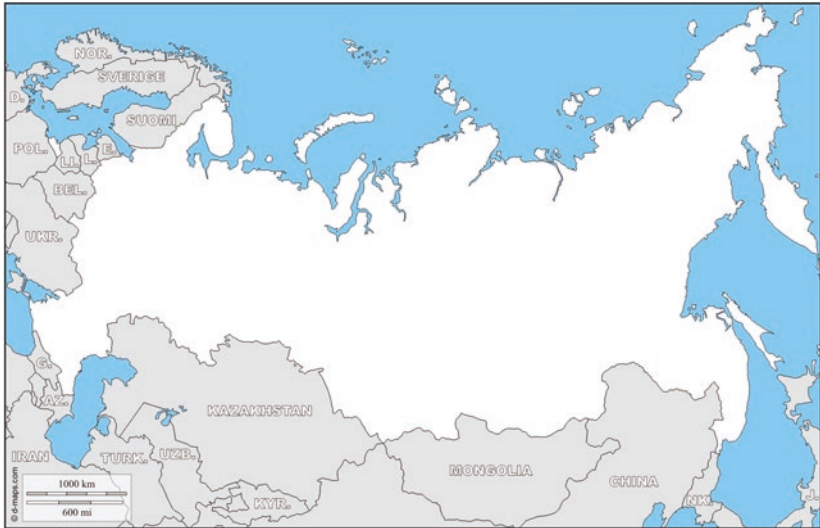


Fig. 2 Maps of Russia and its neighbors ([http://d-maps.com/carte.php?num\\_car=4264&lang=fr](http://d-maps.com/carte.php?num_car=4264&lang=fr))



Fig. 3 Maps of Russian main cities and rivers ([http://d-maps.com/carte.php?num\\_car=24967&lang=fr](http://d-maps.com/carte.php?num_car=24967&lang=fr))

If this were true up to the First World War, it is subject to the discussion today. Yet, with such a vast territory, spanning nine time zones, it has become an essential part of the Russian cultural roots. From early on in its history, size has been both a key asset and a liability for the Russian people.

Russians are used to large distances. This is true not only between cities, but also within cities. The reason is the relatively late development of the Russian cities. The districts where people mostly live today in large towns are quite new. Omsk, a city of more than a million inhabitants, 2700 km from Moscow, has existed since 1785. Novosibirsk, the third most populous city in Russia with 1.5 million inhabitants and capital of the Siberian Federal District was founded in 1893 while Murmansk is not a century old yet.

This relatively modern development also explains the quasi-uniformity of towns separated by thousands of kilometres. Thus, nothing resembles a district of a Russian town more than another district of another town. A popular Soviet comedy, *The Irony of Destiny*, plays on this truth.

If the territory of Russia were populated only recently (by historical standards), this recent phenomenon also explains the homogeneity of the Russian language across the country. With the noticeable exceptions of the Caucasus region, Moscow and St. Petersburg, Russians speak with surprisingly few variations from one region to another. Differences exist of course, but not enough to prevent understanding the speaker. Only a seasoned expert of regional linguistic peculiarities can easily determine the region of origin of a Russian speaker.

That being said, differences in languages do exist. This is simply because not only Russian people live in Russia. “Ethnic Russians” (if such a term can be used) represent officially 80% of the population. The other 20% are scattered among the 83 Federal “Subjects” (also called the “constituent entities of the Russian Federation”) of the country (85 if we count the territories of Crimea). Thus, if Russian is the official language across the Federation, it is not the only one. Actually, the country is home to many languages, 27 of them official and more than 100 spoken as minority languages.

These “subjects” are of different natures. Forty-six of them are called Oblast, which means literally “region”. These regions are primarily grouped around Moscow and bear the name of their main city. For instance, the Tver region (north of Moscow) has the city of Tver (pop. 400,000) as capital. The Samara region (East of Moscow) has Samara (pop. 1200,00) as its capital. But, the Amur Oblast has its administrative center in... Blagoveshchensk! (Pop. 200,000) (Fig. 4).

The other ‘subjects’, besides Moscow and St. Petersburg that are considered as federal cities, are called Republics. They have their own constitution and often have their own official language (other than Russian, of course). While “ethnic Russians” represent the majority of the population in most Republics, some keep a strongly homogenous population such as Tatarstan (53% of the Republic’s residents are Tatars) or Kalmykia (57%). Other republics enjoy an even higher percentage of the indigenous population, mostly in the Caucasus, such as Ingushetia (94%) or Chechnya (95%) but this is mostly due to the massive departure of the ethnic Russians in the last 20 years.



Fig. 4 Russian “Subjects” ([http://d-maps.com/carte.php?num\\_car=61281&lang=fr](http://d-maps.com/carte.php?num_car=61281&lang=fr))

Despite those unusual cases, most Russian regions do not develop identities strong enough to threaten the existence of the Russian Federation as a unified territory.

## **Influence on the Russian Psyche**

This strong personal relationship between the people and the territory is not unique to Russia, but here it is a key element to understanding its culture. Even, if we try to avoid the usual clichés, the very size of Russia nevertheless has an impact on how the Russian population thinks, behaves and sees the outside world.

Curiously, locals themselves often misunderstand this obsession with the size of the country. Indeed, many Russians living in the European part of the country have only a vague idea of the reality of life east of the Ural mountains. If about 20 million people live in what is called Siberia, the other 120 million frequently confuse stereotypes and reality. Without a doubt, we can link this relationship to the size of the country and the tendency of Russians to over evaluate their country (size, population, power, etc.), and to later be prone to disillusion.

The geography and the climate of Russia are often cited as reasons for many peculiarities of the country, in particular, its dysfunctions. For instance, many justify the tradition of strong leadership to the vastness of the country (someone needs to hold the territory together). It is true that long, harsh winters shape character and roughen behaviors. Also, some authors have claimed that the geography of Russia, with its vast territory, is the root of a certain feeling of isolation, leading to a mistrust of strangers. This feeling of isolation would also be responsible for a supposed collectivistic culture. It is also claimed that the climate is the main reason for Russians being pessimistic.

Pessimistic the Russians? Well, this characteristic is greatly exaggerated. If people frequently lament the troubles their country faces, when they are talking about their family, most Russians do not show pessimism. Fatalism perhaps, but certainly not pessimism. “Все будет хорошо” (Everything is going to be alright) is a set phrase employed equally by individuals and the authorities. If the climate was responsible

for the mood, people living in warm climates would logically be the happiest in the world, and this is not the case.

Actually, using geographic elements and climate as elements of culture is useful to understand the origin of a culture. However, linking precise behaviors with it is dangerous. If the theory were correct, we could use it in reverse: small countries with non-harsh climates would be democratic, individualistic and happy. It is obviously not the case.

Finally, we could also use a counter example to prove this influence greatly exaggerated: Canada. An acclaimed democracy, this country has many similarities with Russia: it is extremely large (second to Russia), sparsely populated (3.4 inhab./Km<sup>2</sup> for Canada, 8.4 for Russia), it enjoys a very long and harsh winter (Montréal is colder than Moscow on average) and it has developed mostly in the last few centuries. Its population is mostly of European origin, its language indo-European and its religion is mostly Christian.

## Economy

Russia is a large economy. It has always been a major world economy although its profile has changed profoundly over time.

Today, all the usual institutions ranking countries by their economic power place Russia in the top 15. Some GDP models (IMF, Nominal) place Russia #12 while other (IMF, PPP) rank it #6.

## Back from Hell

It is a remarkable recovery for a country that used to be the second superpower, went bust in 1991, followed by a decade of shrinking of its economy (basically the economy of 1998 was half that of 1991). The lowest point, economically and psychologically, was reached undoubtedly after the financial crisis of 1998, which came from Asia and knocked down a weakened system that had not recovered from its abrupt change from Soviet-led dogma.

This crisis brought profound changes in the economy. On the one hand, many (almost all) investors left the market, creating a serious slowdown. When added to the collapse of many banks (with the clients' savings) overnight, it is clear the consequences were extremely painful for the entire population. On the other hand, the near absence of foreign competitors and the drastic reduction in imported goods due to the devaluation of the Ruble was a welcome event for many companies that had managed to adapt to the new situation. Many large Russian companies today began to develop seriously on the ruins of the 1998 crisis.

In the following decade, the Russian economy grew every year. This recent growth can be explained by several factors. The arrival of Vladimir Putin on the last day of 1999 finally brought a sense of stability and a roadmap to the development of the economy, even if no clear program has ever been presented. While his first term followed more or less the vague direction of the liberal-minded Yeltsin era, a sharp turn took place after his re-election in 2004 with a strong preference for state intervention at all the levels of society: TV channels were either closed or purchased by state-related companies, such as Gazprom media, tycoons were tamed or forced into exile, and most importantly, natural resources (gas in particular) were chosen as the prime vector for recovery.

If the GDP of the country recovered and even doubled over this period, this phenomenon needs to be tempered by the fact that the world GDP also nearly doubled during this decade. Actually, a majority of post-communist countries experienced a similar fate: sharp economic contraction in the 1990s and a recovery in the 2000s.

## **The Time of Gas and Oil**

Russia is different from most other countries in the region of Eastern Europe because of the role of natural resources in its economy. Until 2003, the oil price hovered between \$20 and \$40 per barrel. Starting in 2004, it grew constantly to reach \$140 at its peak in 2008. Countries exporting oil-related products became extremely rich during that decade. The Russian leadership maximized its revenues nominally and

quantitatively by simultaneously collecting an export tax and by developing the volume of petrochemical products to Europe taking key steps such as the construction of new pipelines (Nord Stream in particular). This rapid development, mainly based on the natural resources, has fulfilled the objectives of turning the country into a global commodity player. Russia is one of the leading producers and exporters of oil and gas, but also of minerals and metals. All these export commodities are extracted from the soil with no or minimal transformation and therefore limited added value to the international market price.

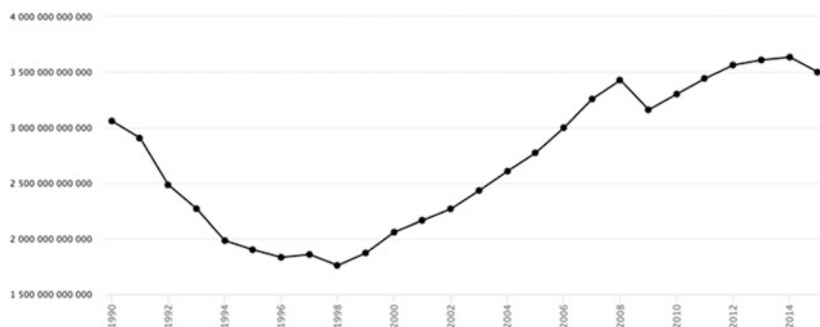
If the common wisdom in Europe presents the Continent as dependent on Russian gas, the reality is otherwise. Indeed, if the European Union imports up to a third of its gas from Russia; Gazprom, the main exporter, sells 2/3 of its exports to the European Union. Clearly, the dependence in place is not the one many believed.

## The Dutch Disease Syndrome

The Russian dependency on gas and oil has hidden consequences that negatively effect the entire economy. It is called the Dutch disease syndrome. This economic process appears when a country enjoys a sudden inflow of capital, often from natural resources. A vicious circle takes place slowly over time, as the money coming from the resources becomes a competitor to the wealth created through innovation in general and manufacturing in particular. In other words, when we become rich rapidly, we stop producing goods because it is easier to simply import them ready made (Fig. 5).

Many petro-economies suffer from this syndrome, with extreme cases such as Qatar, which is obliged to import everything, including drinking water. Russia, once again, differs from the group that went from poverty to oil-rich. Russia had been, for most of its history, reliant on its agriculture and its industry to develop. The stereotyped image associated with Russia has long been a worker in a factory, and not a commodity trader in an office.

Today, the situation of these two historic sectors is in disarray. Light industry, in particular, is in poor shape, having successively suffered



**Fig. 5** Russian GDP 1989–2015 (Reprinted with permission from *Perspective Monde*, University of Sherbrooke, <http://perspective.usherbrooke.ca/>)

from USSR governmental plans favoring heavy industry, and then from the competition of better quality products from abroad. A quick look at the objects present in a Russian home or office will confirm the quasi-absence of products manufactured in Russia. Heavy industry still enjoys a small market, thanks to state-sponsored orders or exports, such as military equipment or space-related goods (satellites, rockets, etc.).

Before the government embargo on Western produce, agriculture was nearly absent from the airwaves, as long as no climatic catastrophe approached Moscow. Life in the countryside is very different than in a megapolis such as Moscow or St. Petersburg and the vastness of the territory does not help reduce a feeling of remoteness—be it physical or psychological. Most of the former state farms have been privatized but most are still connected to the government one way or another. Many talented young people left the countryside for the towns, leaving few competent talents to take over farms that had already been poorly managed under Soviet rule. Despite its gigantic potential (with about 200 million hectares of arable land ready for use), agriculture is not seen as a strategic sector.

## An Economy in Crisis

Following the annexation of Crimea, several major economic blocs (roughly all the NATO members plus Japan) announced sanctions against



Russia. In practice, those sanctions strongly limit Russian State enterprises (in particular banks) from having access to the financial markets of those countries. A list of equipment considered as dual-use for military purposes has also been banned, together with military goods. France subsequently cancelled the delivery of two Mistral-class ships, while Germany cancelled the delivery of a training camp in Russia. Several dozen officials were also barred from entering the signatory countries.

In a tit-for-tat move, the Russian authorities have announced in 2014 an import ban on agricultural products coming from the above-mentioned list. Such action was designed both as retaliation but also to boost national production.

Yet, the real crisis emerged in mid-2014 when the global price for crude oil suddenly plunged from 100\$ to less than 50\$ (see graph in Fig. 6). With an economy so heavily dependant on oil, the ruble immediately started to depreciate, losing more than 50% of its value against the USD or the Euro in a few weeks. With access to cheap foreign



**Fig. 6** Crude oil price evolution 1995–2017 (Reprinted with permission from Andrei Petukhov)

produce severely restrained and a currency drop of such magnitude, the Russian population saw its purchasing power quickly diminish.

This readjustment of oil prices in international markets hit the State budget hard. With costly military engagements, the government has little room for adjustment and is forced to brutally reduce expenses in nonessential areas such as social services or education. The number of wage arrears in Russian regions dependent upon State orders has steadily grown in 2015–2017. Skilled monetary policy by the Central Bank avoided an even more painful situation. However, many believe Russia has now entered an economic period of long-term mild crisis, or—at best of stagnation.

## What's Next?

Russia has enjoyed regular cycles in its economy: long periods of stagnation interrupted by intense periods of growth and development. In the twentieth century, the growth periods were before WWI, after NEP, after WWII, and after Perestroika. The latest surge that occurred in the 2000s is probably half due to the consequences of the market liberalization following the end of the Soviet Union, and half due to unexpectedly high commodity prices. With an oil price stubbornly under 50\$, current figures suggest stagnation is looming for the coming years.

With an open disinterest in the scientific community and the academic world, Russian leadership will have a difficult time fostering growth from innovation, whether in the IT sector or the biotech field, for instance. The industry is likely to maintain itself at existing levels thanks to the strong demand from Russian households for equipment and cars. Russian factories are becoming assembly plants for products designed abroad by foreign brands, for the national and former-USSR markets.

Might the salvation of the Russian economy lie once again in its vastness? If no one can predict the fate of Russia's oil business, sooner or later, Russia will be an agricultural superpower. The physical predisposition of the country makes it a potential Garden of Eden. From its perceived limitless energy resources (gas, petrol, metal, coal, etc.), to its vastness spread over many latitudes, ready to become an agricultural giant, Russia has

everything to be the best place to live in the world. Its climate is rigorous but not life threatening, and remains a good protection against epidemics. Natural disasters are mostly in uninhabited areas (few earthquakes, tsunami, forest blazes are relatively rare), and its central position (unlike Australia or Argentina) should make it a natural commercial giant.

## **PART 2: The Shaping of the Russian Mentality**

### **A Country of Appearances**

Russia is a High Context culture; it means that not everything said should be taken literally. Russian jokes often have several layers and Russian movies are often very deep. This phenomenon also explains why, when talking about Russia, at one point the discussion always goes into knowing the “real” Russia, the Russian soul. The Russian cultural experience is a genuinely dual phenomenon.

To truly understand Russians, it is necessary to be aware of both worlds. Inside, or off the scene, Russians are frequently different from the image offered to the rest of the world: Rude with strangers in the street but lyrical when declaiming a toast; not caring about basic community duties but dedicated beyond limits to helping a friend. Such examples and many others show how much the inside view is different from the outside view in Russia.

In order to better understand the extent to which many assertions made in Russia may not conform to reality, it is important to introduce the notion of “almost reality”. Russians, through their fatalistic approach to life and their remoteness from the world, have always had a tendency to conceal the full reality. For proof, one of the main actions of Gorbachev when introducing the Perestroika process (meaning Reconstruction) was Glasnost, i.e., transparency.

Like any nation that is insecure with its own values and future, Russia had to stretch the facts in order to be in line with official decorum. The consequence is an unpleasant feeling for foreigners (and Russians too, actually) of living in a dream (or a nightmare) world, in a place where most of what you see or hear is fake.

The first disturbances come from the scientific sphere. No one doubts the greatness of both Russian and Soviet science. However, one may become puzzled when hearing that Popov invented radio and Yablotchkov the electric light bulb. Only the first inventor to register a patent or an article in some scientific journal or conference is entitled to claim the discovery, and the Russian scientists knew that. Unfortunately for many of them, some foreigners reaped the fame abroad. It did not prevent the Soviet government from proclaiming the Russian scientists as the sole discoverers of these breakthroughs. Similarly, it is supposedly a Russian captain, Bellingshausen who discovered Antarctica.

This tendency of concealing reality has many ramifications in everyday life. When doing repairs in an apartment building, we do “Remont” meaning placing some nice panels on the walls and linoleum on the floor: Complete repair, called “Euro-remont”, is rarely done. Beneath this thin cover, you still have the same rusty, dusty and cracking building.

Many books already presented this joke: Americans love their country and do not understand why foreigners do not. Russians despise their country and do not understand why some foreigners actually feel the same about it! The truth is not that simple, however. Like any citizens, Russians have strong patriotic feelings and therefore want to show the best of their country. By living in it from childhood, people are very aware of the limits of the government and the society, especially the ones who have had the opportunity to go abroad.

Nevertheless, the government has little choice but to advertise a rosy world. No government in the world would consciously present the constant shortcomings of its country. The Soviet Union excelled in it unconsciously. Numerous foreign delegations to Moscow, Leningrad or Sochi (they rarely went beyond these areas) were shown a well-prepared package.

If Stakhanov’s deed was debunked, it is difficult even today to distinguish between truth and myth as the shortcomings of the communist system were so numerous, we linger in the “almost truth” most of the time.

It is also difficult to understand how regular Russians live in Russia. To better understand the “Russian soul”, it is crucial to focus on the outer layer of culture, the artifacts, that is, what we see. And, in Russia,

what we see may be very misleading. The controversial story of the “Potemkin villages” is to be kept in mind. While the Empress Catherine II was to visit new settlements in the south of Russia, her lover, Prince Grigory Potemkin was in charge of the project. According to the legend, the development did not go as planned and lagged far behind schedule. In order to show some astonishing results, it was decided to move soldiers dressed as peasants along the Dnieper and to arrange them far from the road the Empress was supposed to take and thus give the illusion of newly built villages.

Historians disagree upon the veracity of this story. Nevertheless, its existence gives some hints about Russian culture: Plans not being followed, and creating a fake reality are two aspects of it.

## The Feeling of Humiliation in Russia

While Asian cultures are concerned with saving face, Russia has a paradigm linked to humiliation. Being a power-oriented culture, the Russian mentality’s alpha and omega is all about being strong or weak. The weak are humiliated by the strong. Thus, quite understandably, the period of the 1990s following the end of the Soviet Union was not only understood as a period of weakness, but of humiliation. Logically, the current leadership is trying, quite successfully, to strengthen Russia at any cost.

Although it is understandable that a population that used to be an empire that influenced the world feels shaken when this empire collapses, Russia is not the only case in history. In the past century, several empires have collapsed: the Turkish, the Austro–Hungarian, the British or the French. In each situation, little attention was given to the social and political consequences of this loss of Empire because, in essence, they lost (a war, or a political battle, or both). Russia is the last one on this list, and the effects are very new—barely two decades.

It is always easier to blame external enemies (real or supposed) instead for one’s own demise. Thus, the loss of the Empire has become a humiliation inflicted by foreigners. Curiously, this reference to a

supposed humiliation was nearly unheard of in the 1990s. The 'West' through various programs (EU TACIS, World Bank, NGOs) has actively sponsored the elite of Russia, often covering all the costs of their trips abroad. In parallel, Russia was invited to join the Group of 7 (to become the G8) although the country did not qualify for any of its entry criteria. NASA proposed to its Russian nemesis to create the International Space Station, and hundreds of Russian nuclear scientists were paid by the US government to prevent them from scattering the sensitive technology abroad. Even militarily, Russia was given a special observer's seat at NATO headquarters, a clear sign of Western openness.

The influence of former KGB personnel distorted the discussion, as this category of people felt humiliated by their former Western opponents, just as former members of the East-German Stasi might not feel comfortable with Germany's reunification. Now that Russia has not only recovered but also outperformed its Soviet economic prowess, it is tempting to use the same paradigm of humiliating/humiliated and to analyze the collapse of the Soviet Union as a humiliation by the West.

The Russian leadership follows a tradition model inherited from tsarist and communist times: Russia should keep a buffer zone around its borders to protect itself from foreign threats. The reduction of this zone (seen of influence) is understood as a direct provocation by those foreign forces and must be prevented at all costs. However, locked in a logic of force, Russia has no model of society to present as an alternative and needs to rely on financial assistance and brutal threats. The demise of Ukrainian president Yanukovich, a man with a similar vision as the Kremlin, followed by the exposure of his corruption-paid mansion clearly shows that strength and humiliation remain exclusive extremes of the mentality in this region.

Curiously or not, most of the recent spats between Russia and the 'West' have taken place with countries like Poland, Estonia, Latvia, or the Ukraine (all of them culturally not so distant from Russia). This leads many to wonder if this supposed confrontation between the 'West' and Russia is not more a posture by Russian politicians to distract attention from their own scandals than a culturally rooted opposition.

## Nostalgia

The loss of certainty is probably what the Russian population feels the most nostalgic about. As people recall, they did not have much but they did not have to worry about anything. From the cradle to the grave, Soviet power, following a socialist ideology, took care of the basic needs of the entire population. Housing, food, and work were a right but the choice was limited: *Kommunalka*, deficit, and bureaucracy were the reality. However, some say that things were better, undeniably, for that part of the population which did not care about the drawbacks. The main one was the lack of personal freedom. Next was the absence of information about the rest of the planet (There was no question of a free press, of course.).

Russians are naturally nostalgic about the past. It is in human nature to be so when the present is not pleasant. However, claims that life was better before are difficult to verify. After all, everyone idealizes his youth. How many times have older people explained that winters used to be different, or that fruit was tastier in the old days? Ask any pensioner and he will also say the 1960s were the best of times. Being nostalgic for one's youth is natural.

Life in Russia today is extremely hard for a large part of the population. Yet, life in Soviet times was in fact not much better. The main criticism today concerns the prices of goods and appliances, and indeed shops in city centers advertise astronomical prices, often higher than in Western Europe. However, it is not always fair to focus on such goods because most were simply not available 20 years ago. As for other consumer goods such as washing machines, kitchenware, construction tools, clothes, knives, or the notorious Coca-Cola and jeans, it was not impossible to find them, but the prices were then very high.

Finally, the goods of basic necessity, such as food, are often in the line of fire. Shops indeed sell some basic goods at very high prices compared with the average salary or retirement pension. However, the basic, brand-less, low quality, Soviet-style goods are still to be found in shops and markets. For low-income pensioners, the high prices concern in general, imported goods or simply goods of European quality but most

often to housing-related fees such as heating or electricity; in other words State-sponsored services.

Another reason behind a certain degree of nostalgia in the older population has to do with values. Most Westerners are in the wrong when they believe the Bolsheviks and Communism brought progressive ideas to Russia. Actually, postwar Soviet society was very conservative regarding family values, sexual education, or behavior in society. For instance, homosexuality was considered a punishable crime, exposed unfaithful spouses would be shamed at work (with their name on a board by the entrance gate), marriage at an early age (soon after graduation) was expected, as well as a couple's duty to have children (a tax existed for childless couples). Most of those attitudes remain present in today's Russia as a recent law against "homosexual propaganda" showed.

The end of Soviet Union, allowed people to travel, interact with other cultures and brought a degree of liberalization to the society. Promiscuous sex became tolerated in the 1990s. Homosexuality, while widely not-tolerated, became more visible. Drug usage spread uncontrolled as well as crime—the usual consequences of a societal cataclysm. Therefore, quite understandably, many people regret the golden age of the Soviet order. But the same is true in the West, actually...

## The Notion of Quality

The housing shortage illustrates another constant problem for the population, the lack of quality. Imagine a life in which everything comes back to the central government, a life in which private initiative is associated with punishment, in which production comes first and quality last. Such was the Soviet system in terms of service. It needs to be understood that the lack of service is not a consequence of the system, but the very essence of it. It was engineered to be so.

In the Soviet Union, light industry, consumer goods, and services were largely ignored by the leadership. Household appliances were of extremely poor quality. With large production facilities ignoring



concepts such as productivity, a very large chunk of the Russian population is relatively uninterested in making profits for anyone except themselves. The result is a kleptocracy, a historic problem in Russia as was illustrated by nineteenth century Gogol's "Revisor". Corruption comes from a high tolerance for the private use of public goods. This does not mean burglary or offensive felony, just taking here a bag of cement, there a "business" trip, or simply some wire from the street lamps to sell them by weight.

### **"Pofiguism"**

If all the above-mentioned points directly influence the overall low level of wealth in Russia, probably the most determining factor lies in widespread negligence, called "Pofiguism" in Russian slang, meaning something like "off-handedness". Even before the Soviet Union, all the rulers, from Peter to Alexander II, have been hampered in their attempt to catch up with the West by a lack of professionalism among the Russian population. Many reforms (such as the municipal ones under Catherine) were postponed or failed because the country did not have sufficient skilled personnel to implement them throughout the country.

But the situation was getting better at the turn of the twentieth century. Russia had acquired numerous techniques and methods from the West and was relatively competitive in a number of markets.

The Soviet ideology stopped this process short. Focused on the workers (and not on the peasants, nor the intelligentsia), it had as a cornerstone the principle of rewarding toughness. The more difficult a job was, the more benefits the worker could enjoy. The most "well-off" workers were those working in the North of the country, above the Polar circle, in very difficult climatic conditions. However, this was not linked to any noticeable efficiency...

One main consequence of this idea was a rapid drop in productivity. With a vast territory and the feeling of inexhaustible resources, Russian agriculture and industry have never been much concerned with

productivity. If it takes four times more energy to produce steel than in the West, so be it. There is oil, gas, and coal; so why modify processes?

Rewarding difficult jobs meant there was no incentive to find an easier way to do something. With such an attitude, the Industrial revolution in the eighteenth–nineteenth century in Europe would have never taken place!

By constitutional right, it was mandatory to have a job. But of course, this “right” also means an obligation to work, at least to do your best at work. Cumbersome procedures, Dantesque bureaucracy and no personal incentive to do one’s best led to widespread waste and negligence. If the plan said to produce a certain number of goods, it did not specify that those goods were supposed to be in working condition. Although each production site had its own quality control department, the quantity produced always prevailed over the quality.

## Trust in Russia

Interestingly enough, each time a catastrophe hits Russia, an investigation is ordered “directly” from the president, as if the judiciary system could not operate on its own (it can, of course). This tendency shows, among other things, the lack of trust in the Russian governmental services: The link is direct between the head and the population. All the middle strata are shunted aside. This is typical of a system without trust.

A growing trend on Russian roads is to equip automobiles with video cameras in the front and at the rear of the vehicle. These videos, without sound, film as soon as the car moves, and record everything that happens, no matter what the driver does. The goal is double: to have proof in case of an accident, and to be able to defend oneself against corrupt street policemen. In time, it enabled the world to watch meteorites fall on Earth with great detail, like in Chelyabinsk, in 2013!

This practice, not unique to Russia, but extremely widespread there, is a clear sign of the lack of trust in Russian society. People lack trust among themselves, but they also lack trust in the authorities.

## Where Russians Live

True or not, the story of Potemkin villages shows a constant willingness to develop towns in Russia. Russians are used to living in a country where bigger towns are naturally the centers of attraction. Soviet times saw a massive rural to urban immigration. Cities in Soviet Russia grew extremely fast as the country was transforming itself from a semi-agricultural country into a fully industrial one. The peak of this change happened during the 1920–1930s, at the time of Stalin’s industrialization and collectivism, and again after WW2, as many villages and towns were destroyed during the war.

While apartment blocs were built, existing ones were split among several families, turning them into “Communal apartments”, called *Kommunalkas*. It is important to stress that people did not choose to live together. The myth of a collectivist Russian mindset needs to be demystified. It is, of course, possible to find people who have happy memories of such a life. However, usually, they are the ones who stayed while others moved to their own accommodation, at any cost.

In today’s Russia, even if *Kommunalkas* have nearly disappeared (around 5% live in such places), several generations living under one roof (in one apartment, to be precise) is still not uncommon. Many newlyweds live in a room in the apartment of their parents, where the grandparents (usually the granny alone) also live. Yet, it would also be simplistic to jump to the conclusion that Russians are very family oriented and like to live together. If families live together in one apartment, again, it is not by choice.

The administrative barriers (registration at an address must be declared to the authorities), the shortage of available apartments, the inefficiency of municipal services in connecting new construction to city infrastructures (water, natural gas, heating, etc.), and the speculative real-estate prices prevent many new couples from envisioning their own apartment any time soon. If marriage is the social condition for having a “serious” relationship, one common drawback is that the couple has to live with the in-laws...

## **PART 3: Cross-cultural Communication/Business Culture**

### **Hierarchy**

This is probably one of the most important dimensions when dealing with Russia. Cultures may have a high hierarchy, with a high power distance, with many levels between the lower part of the group and the leader. On the other extreme, cultures can be flat, without too many layers between the base and the top of the organization.

Russia is one of the top scorers of high hierarchy in the world, in the league of India and China. In Europe, it is surely the most hierarchical culture. The concept of hierarchy does not only imply organizations such as a business with a very strong organizational structure. It also implies an acceptance of hierarchy in the society, in general. People in high hierarchy cultures acknowledge differences between people: between powerful and not, between poor and rich, between educated and less educated, between generations and of course between genders. Driving on Russian roads quickly gives a vivid illustration of this power-orientated culture.

If one accepts the hierarchical nature of its culture, cronyism is not seen as an abuse of power, but merely as a perk of power. Corruption is not necessarily seen as some immoral action, simply as ways to get access to the power of someone higher-up.

If Russia has a strongly hierarchical society, this is something deeply rooted in history. For instance, the Soviet society, though egalitarian in the words, never turned its slogans into actions, as it was indeed a very hierarchical system. For instance, trains had three distinct classes...

Also, being a member of the Communist Party was not at all automatic, one had to receive the privilege of being accepted. In return, party members (only 10% of the population at its height) received specific privileges such as discount prices, access to products in short supply, priority access to tickets or vacation trips, etc.... It was considered normal that party members, and consequently the high-ranking members, had a different life. All knew that the children of the intelligentsia had more access to trips abroad or were pre-selected to become heads of companies.

## Elitist Education

The Russian hierarchical attitude also comes from its education system. First of all, not all schools are equal in level, and not all have the same type of educational program. In every city exist some “better” schools with the reputation of preparing students for better universities. In parallel, some schools are specialized in mathematics, others in humanities, still others in foreign languages. Till the introduction of a controversial national entry test (ЕГЭ), to enter a prestigious university, the name of the high school of origin (or usually number as schools are rarely named after a famous person) was almost as important as the grades.

As the pupils stay from 7 to 17 in the same school, this first choice is decisive for the future of the child. This system also builds strong relationships between children, but also with the teachers who enjoy (or better enjoyed, as we will see later) a sort of student-master relationship.

## Hierarchy and Negotiation

The hierarchical dimension is key to understand the way Russian negotiation teams are structured. A Russian organization will rarely send a lonely negotiator with full representation rights from the HQs. Usually, several persons compose the delegation: several youngsters and at least a senior member. The younger delegates may be experts in the field involved, or fluent in the language used to discuss. The senior member, might not be always savvy in the technicalities, might not speak fluently a foreign language, but will be the one taking the decision. If the discussions are run at a high level of hierarchy, the head of negotiating team should match the title of the Russian head of delegation.

Once the Russians agree on the big picture (see circular thinking), decisions can be done on the spot; trusting nondecisive specialists can easily solve mere technical issues. At first glance, there is an illusion of collectivism (they come in the group), but in reality, this is simply the display of a hierarchical-orientated culture.

## Ascribed/Achieved Status

Important people exist in any culture. However, why such person is more important than another differs. Some cultures favor past achievements, tangible results, and recent activities to push up the status of its members. Other cultures, ascribed, will focus on *who* the person is instead of *what* was done by him. Russia, despite having lived in an officially equalitarian, meritocratic soviet system for decades, features relatively ascribed tendencies.

Who you are is very important in Russia... to be important! Elements taken into account may be:

- Age: seniority is highly respected, youngsters are supposed to sit, learn and keep quiet;
- Gender: a gender gap effectively exists, with leaders being almost exclusively men, or women with a Pygmalion such as the former governor of St. Petersburg, Valentina Matviyenko, appointed thanks to her proximity with Vladimir Putin (a St. Petersburg native).
- Diplomas and specialization: Typically in ascribed cultures, what you studied is not as important as *where* you studied. Prestigious universities such as the Moscow State University or the Bauman Moscow State Technical University attract best minds also because of this status orientation. Having a PhD title is nearly required to enjoy recognition, even if it means speeding it up with some 'help' while already in office, many years after leaving student's life. Most ministers (and sometimes rectors) are awarded their PhD while already in office...
- Social connections: Whom you know tells how powerful you are (or at least you wish to appear). This is probably the most important element of this list. NAMEDROPPING is a classic feature when people meet for the first time: it is essential to impress the other one with a list of important persons one knows. Social connection can easily trump other criteria such as age, which explains why young managers can be appointed to a much higher position than their age would suggest, simply because of their relationship with the leader.

## Showing off

If, traditional Russians used to behave in a humble and down-to-earth manner, the Soviet system has profoundly modified this element of culture. The term “deficit”, meaning a lack of something, was a widespread leitmotiv till 1990... The Soviet system, so effective in producing state-of-the-art submarines or rockets, was not so good at coordinating the production of everyday goods, to say the least (like today Venezuela and its toilet paper production problems). Outside Moscow, everything was in short supply.

One way to be served properly was to have some sort of connection or above-the-average rights. Of course, the vast majority of the citizens had few special rights in this regard. So, sometimes, acting like an irritated member of the nomenclature could make up for it. All were equal but some were more equal than others... as Russians like to quote George Orwell’s *Animal Farm*.

This habit of showing off one’s disrespect for the sales personnel and of the other customers was rapidly exported by the “new Russians” as soon as they could fly abroad to spend their dollars. It did not help the image of Russian citizens abroad.

Today, after 20 years of exchange, the situation is going into normalization. Russian clients abroad start understanding that shouting rarely brings better service and that a smile actually might.

## Russian Time

### Patience

One of the main competitive advantages when doing business in Russia is to be patient. You wait in line at the customs, you wait for your host to show up, you wait during negotiations, you wait for the feedback, and of course you wait for a final answer! If you get mad, you lose. The best way, often, is to adhere to a real Zen attitude. Smile (not too much and not sincerely) and let the water flow under the

bridge. When Russians see that waiting do not bother you to the point of losing your nerves and to be influenceable, then you will notice that you start to wait much less. Just do not let them forget about you!

## **Polychronic Vs. Monochronic**

If the Russian economy is often dubbed as “in transition”, this term is even more applicable to its business culture. It is particularly true regarding this cultural dimension. Interestingly, many Anglo-Saxon theories of management taught in Russian universities and implemented by the first foreign (many German) companies at the end of the Soviet period have profoundly altered the Russian management. Russians naturally enjoy working in a polychronic environment, but they strive to behave in a monochronic way. In other words, they plan a lot (office hours, 5-year plans, etc.), but usually change the plan before the deadline!

Everything in modern Russian company brings to mind the monochronic approach: thick contracts are signed, the government has many ambitious plans (used to be 5 Year plans), appointments are made in advance and confirmed by email, the opening hours of the office are clearly posted on the door... At first glance Russians have a very linear, monochronic relationship toward time.

The paradox appears when we look more closely: The contracts are worth less than the mutual trust between the signatories, none of the 5-year plans was ever fulfilled, appointments confirmed three times are postponed at the last moment, you are likely to find closed doors if you trust to the opening hours of an office, an appointment is constantly interrupted by the secretary, phone calls, a colleague: in short, it is extremely rare when anything goes according to the plan! Russians know it, and feel very comfortable about it.

Despite efforts to behave in a monochronic manner, Russian managers remain deeply polychronic... In other words, a leopard cannot change its spots!



## Fixed or Fluid

Russians are moderately fluid. It means they tolerate a little delay when meeting each other. Social calls are expected to be starting with 5–10 min of adjustment time? Besides, in large towns such as Moscow or St. Petersburg, it is expected that visitors might be delayed by traffic or simply take time to find the location. So, we could say Russians, compared with other cultures, are relatively on time, but without being extremists of it.

That being said, foreign visitors are expected to be on time. This is true in every country, not only Russia.

The Russian host, on the other hand, might be late voluntarily, to show one's supposed power. Many foreign guests had been kept waiting up to several hours at the Kremlin for this reason.

## Past/Present/Future

While Russians are often obliged to focus on the present issues because of the chronically perceived instability, they are overall past orientated. How old a company is, how long it has been on the market, who was the founder, has the main product been fully tested, and other past-related elements are essential in doing business in Russia. Knowing this particularity, most retail companies in Russia (foreign or local) advertise every year their anniversary!

I.T. products are very popular in Russia being mostly status symbols (a lot of users were displaying smuggled iPhone before the local launch, even if many features were de-activated).

## Collectivism Vs Individualism

Reading newspapers and other books on Russia, you cannot help asking one question again and again: Are the Russians individualistic or collectivistic?

It is generally accepted the many years of Soviet ideology have fundamentally changed the character of its inhabitants, and thus Russians think in groups

We also hear, mostly from elderly people, that everything has changed (for the worse), that today's Russians are selfish, materialistic and individualistic. Examples frequently cited are a lack of civic behavior, infrequent in Soviet times.

From a purely cross-cultural management point of view, this is a challenge because the notion of Collectivism versus Individualism is heavily loaded with political meanings.

Historically, Russia is a strong communitarian country, where "village communities" had a central role. They were called in Russian "Мир" as the *world*. The land belonged to the community and was divided equally. It is on this fertile ground that the Bolsheviks had little difficulty in disseminating their communist ideas. The country's size and the harsh climate had fostered a sense of community centered on the village, or more precisely focused on the family.

However, this system, in reality, was not as egalitarian as many would like to believe today. Leaving the community was not easy and involved many extra efforts: Collectivism was as much needed as it was imposed.

Also true, Russia has always been a country of towns. Villages, as understood in Western Europe were actually few for such vast territory. Living in a large town is not a new concept in Russia. There have always been relatively big towns in Russia, where the inhabitants were free of serfdom.

The Soviet rule has upset this balance by superimposing a pseudo-egalitarian, pseudo-collectivist layer. The peasants had no choice but to work in teams, in farms (Kolkhozes), in factories, in the city life (demonstrations, such as May 1st) and even in sharing same apartments (Kommunalka). Having a one-party political system following a single ideology also suggested a collectivistic mind.

The end of this regime has surely torn this collectivist and egalitarian layer but did not alter deeply Russian values. The situation today is that the core of Russian society remains focused on the family and teamwork. The country leadership is balancing between reviving a patriotic spirit and recognizing the right for individuality.

In practice, all this leads to a clear breach of civic rules (Litter makes streets and staircases dirty) but a very strong respect for its immediate environment as in the apartments where most Russian wear home clothes and indoor slippers are immediately proposed to visitors.

## Russian Locus of Control

A constitution is the founding document, which usually sets the tone a society wishes to follow, stating in a meticulous order its priorities.

While the United Kingdom notoriously has no constitution but a legal system based on the common law, the 1st Amendment of the US Constitution guarantees the freedom of speech, ideas, and religion. The French Constitution claims that all men are born equal and the secular, republican spirit is clearly stated.

The Russian Constitution begins as such:

*We, the multinational people of the Russian Federation, united by a common destiny on our land, asserting human rights and liberties, civil peace and accord, (...) hereby approve the Constitution of the Russian Federation.*<sup>1</sup>

The referral to fate is striking. Russians feel and state they are bonded to this land, with no reference to freedom, choice or equality.

From a cross-cultural point of view, this refers to a concept called Locus of control. People who feel their life does not only depend on their actions but on “external events” are associated to a “constraint” or “externally controlled” culture. Spontaneously, Russians acknowledge there is destiny, that individuals do not master their own life.

It is the general relationship to the Nature, to the surrounding that is involved here. This has many implications in the Russian character but also on business issues. For instance, constraint people take proverbs and superstitions seriously. A few of them are:

- Do not shake hands under a doorframe,
- Do not whistle indoor (do not whistle at all is best)
- Sit a few seconds before a trip,

- Look in a mirror if you came back to pick up something you'd forgotten,
- Offer flowers in an odd number (even numbers of flowers are for funerals)

The space of the country is of course not foreign to this feeling of fatalism. Russia is a country that developed in an organized way, with settlers going east to populate the new lands. Distances between towns and even villages remain today very long. A few centuries ago this feeling was probably even greater. Imagine that in a country so spread, if something goes wrong for you, you can virtually walk in any direction for days, weeks, or even months before meeting another soul.

From a different angle, it may also mean that a stranger coming to your hamlet may be anyone: a new Tsar envoy may be perceived as a bandit... If you add also the terrible weather conditions in most of the country (very cold in winter, very hot in summer), then what comes from "outside" is not necessarily good.

The relative forgiveness to some corrupted or incompetent leaders is also greatly explained by this approach. Consequently, the notion of "controlled democracy" is rather well understood in Russia and much less in Western countries.

## **Locus of Control Applied to Business**

Because Russians have a constraint behavior, they believe they have little control of their life and that external events will ultimately shape their own destiny. Elements influencing their life can be the size of the country, the climate, but also the government or simply luck. If a delivery truck is late in winter, it is because of the snow blocking the streets, and not because the planning was not ideal.

It has an impact on the image of the ideal manager. Controlled people favor visionary leaders who are able to nearly foresee the future, and plan accordingly. Constraint people will follow a leader who is seen as resourceful, who is able to react quickly to any sudden event. Therefore, knowing many influential people is seen as a clear sign of power. The

one who has many contacts in the administration is able to navigate successfully the stormy waters of Russian business environment!

This is why, many controlled managers have a hard time when working in Russia. Although they are surrounded with talented subordinates, they often have the feeling of working in a messy way simply because they keep seeing others 'doing their best' to solve issues while they would expect problems to be thought ahead in order to avoid them. Displaying great energy (and stress) in solving problems is seen in Russia as a clear sign of competence. Quite naturally, each time a catastrophe happens in the country, the leaders promise to take measures to fix the problem... till it happens again.

Ultimately, the main reason behind your problems in Russia is bureaucracy, the answers of Russian to it being: You are in Russia! It means there is nothing we can do about it.

## Particularistic Russia

Particularistic societies are those in which particular circumstances are more important than rules. Universalists are inclined to follow the rules—even when friends are involved—and look for “the one best way” of dealing equally and fairly with all cases. It does not mean particularistic individuals favor a law-less organization, quite the contrary indeed. Usually, those cultures have a very complex set of laws actually. But the human relationship comes first. If there are so many laws, it is because there are many exemptions!

Bonds of particular relationships (family, friends) are stronger than any abstract rules. One's response to a situation may change according to the circumstances and the people involved. Particularistic people often argue: “it all depends”.

The Russian behavior is very much characterized by a particularistic approach. Such approach implies that the human factor is above the legal one. It means that in any situation you may have a “human” way to go around the law, even it you need to go to the very top, to the Tsar that rules above all living things and laws.

The power of those who can modify the application of such law is therefore tremendous. As an individual, you will always put an order coming from an individual before a commandment from the law.

All those terms do not involve a relation between an individual and the Law, but a human relationship of power. This “humanisation” of the legal system has also another implication in the way people behave toward the law: One does not follow or disrespect the law; one is either above or below.

The human factor is therefore central when talking about the respect of the law in Russia. One example that anyone who visits the Moscow Metro will reveal this point in real life: Foreigners may be shocked to see the way people behave in the corridors and the staircases of the metro. The surprise comes when one is about to step on an escalator. Although a wild crowd is usually pushing its ways toward the moving stairs, a curious evolution happens from the first step: All the travelers that were pushing their way through a minute ago are now standing on the right in an ordered way. That is to let the hurrying people go up or down faster.

This example is interesting because the etiquette is the same in the corridor and on the escalators, why such difference? The difference lays in the “diejournayas”, those watching women (occasionally men) who will not hesitate to harangue the “hooligan” who dares not to bend to the custom. Passengers of the metro do not follow the law on the escalators, but a human order.

But Russians, like any particularistic culture, consider themselves very special. There is always an exception in Russia. Who did not hear such an easy answer: You do not understand you are in Russia!

## Corruption

There exists a direct link between particularistic cultures and their level of perceived corruption. Quite logically, cultures that tolerate exceptions enjoy a very different comprehension of what corruption means.

Russia is famous for being the most corrupted developed country. Ranking 127th in the list of Transparency International, it has been called a “virtual mafia state” in which “one cannot differentiate

between the activities of the government and Organized Crime groups by Spanish prosecutor, José Grinda González, a specialist of Russian Mafia.<sup>2</sup>

Although Russia has always been corrupted (in tsarist and in Soviet times), the situation today is probably unique in its impact on the economy. Not only the High level of corruption in Russia handicaps foreign investments in the country, it also hurts very strongly Russian businesses. SME in Russia rank corruption by state officials the prime barrier to their development. More and more wealthy Russian entrepreneurs choose to save their fortune abroad, not to escape tax (which is relatively low) but to hide it from voracious raiders protected by their link to the State. Others are deciding not to reinvest their money because of the unfavorable rate of corruption in any deals: in other words, they decide not to invest money in Russia, not for moral values only, but because the amount of money spent to grease palms turns ventures unprofitable. Some kind of Lafer curve applied to corruption, not tax: too much corruption hurts corruption.

It is important to understand that corruption in Russia is not a by-product of the system: it is an integral part of it. It is permitted because the State does not rely on taxpayers' money to function (hence elections are not very important) but on natural resources revenues. Also, the absence of counter-powers (press, political opposition, civil society, etc.) means corrupted officials act with near total impunity. Thus, anti-corruption measures cannot work in Russia without changing the system, and it is unlikely in the near future.

When the power wants to get rid of someone, some corruption affair 'suddenly' emerges. Unless one of the key elements (dependence on natural resources and absence of counterpowers) changes, there are no objective reasons for a drastic change in the near future.

## **A Relationship Orientated Culture**

In the autumn of 2003, the participants of the International Space Station (ISS) were confronted to cultural interpretation of the safety rules. New batteries were supposed to be sent to the ISS.

The Russian team, knowing the reliability of the devices, did not want to go through safety procedures that were tightened following the Columbia shuttle explosion. The Americans insisted on going through the testing... Whether or not the testing was subsequently implemented, this example shows the two approaches space specialists have towards safety concerns: In the US program, you need to prove it is safe, while the Russian line is "prove it's not safe"...

According to Fons Trompenaars, "*people from specific cultures start with the elements, the specifics. First they analyze them separately, and then they put them back together again. In specific cultures, the whole is the sum of its parts. Each person's life is divided into many components: you can only enter one at a time. Interactions between people are highly purposeful and well defined. People from diffusely oriented cultures start with the whole and see each element in perspective of the total. All elements are related to each other. These relationships are more important than each separate element; so the whole is more than just the sum of its elements. The various roles someone might play in your life are not separated.*"

Readers of this chapter already understood that Russia is a diffuse culture. In Russia, roles and status are combined with the private and professional sphere. This aspect creates situations that may seem curious to specific orientated foreigners dealing with Russians. A call from your boss at 11:00 PM after a business day to inform you about last moment changes in tomorrow's presentations is not surprising. In reverse, most Russian employees would naturally turn to their boss (or the representative of the authority) for advice, help or support in a wide range of subjects. In this logic, asking, say, a day off because a parent or a child is sick, or the permission to use scrap material of one's own use is not understood as perks or benefits but as a token of respect. Diffuse management in Russia means that even an authoritarian leader must care for its subordinates.

Stemming from cross-cultural management—and confirmed by seasoned managers in Russia—, a piece of advice given to a newly arrived expatriated manager would be: listen to your subordinates, show interest in their after-work life, express compassion and support when necessary, and make a speech at birthday celebrations. Life in this diffuse Russian world will be much smoother afterwards!



In practice, a cross-cultural situation may also appear quite dreadful to a Russian person dealing with a specific orientated one. For instance, brainstorming sessions are easily understood here as a covered-up tribunal of one's ideas. The more the other will be specific ("Do not take it personally, but...") the more the meeting may become unbearable. To diffuse people, ideas are not separated from personality and status. The notion of passing judgment on one's idea, without criticizing the individual, needs to be carefully explained in Russia.

Other business practices greatly influenced by such dimension are meetings and negotiation patterns. Typically, a diffuse person will start the discussion with small talk: family, politics, sports, weather, etc. ... A discussion follows a centripetal spiral: first with subjects remote from the business world (weather, politics, family, sport, etc.) in order to get to know each other, and, finally the business subject. Business, then, is not the key element anymore, it is the quality of the relationship that is. The semi-conscious concept is to gauge the interlocutor. When a more precise image of the visitor emerges, business issues may start. The specific guest, wishing for the sake of efficiency, to "stick to agenda" and to "get down to business" is easily confused.

To sum-up, Russia is clearly relationship orientated. Getting to know people is a key to developing a business. The small talk is very important in order to find out the characteristics of the possible partner.

Over time, relationships are remembered and will be used if needed. One reason the agendas are constantly changing has to do with the necessity and choice to accommodate others agendas for the sake of the relationship. This can be quite pleasant when trouble appears, Russians usually accept to change their plans if you enjoy a good relationship with your counterpart.

## **Communication in Russia: Mind the Context!**

The Russian culture is moderately "high-context". This concept, originating from American anthropologist Edward Hall, means interlocutors assume the other one is knowledgeable of the same background information, of the context the communication is taking place. Required

knowledge is implicit, patterns that are not fully conscious, hard to explain sometimes even to a member of that culture. The way of talking is hence appearing quite cryptic to the newcomer.

In practice, the uses of nicknames, inside jokes or corporate traditions are the most visible features. Alexei becomes *Liokha*, Anna is *Anya*, Stanislav is called *Stas* and Alexander is *Shura*, *Shurik*, *Sasha*, *Sashka*, *Sashura*, or even *Sanyok!* The newcomer needs to be introduced to all this initiation to belong to the group. The newly expatriated manager locked in the office without learning these “folkloric” traditions is surely going to have a hard time working in Russia and is likely to have a moderate (if any at all) authority among the local staff.

This is because such cultural dimension is also linked to the notion of hierarchy. High-context cultures favor the use of titles, levels, and distinctions. Again, presenting your manager as *Professor Ivanov* has its own loaded meaning. The use of *Vy* instead of *Ty* is another mark of the necessary distance that exists between people. Undermining this point may create some frustrations toward one’s Russian colleagues and subordinates. Hence, it is advisable to clearly state diploma and titles on business cards (PhD, MBA, etc.) and to let every one of the staff have their own. There is not such thing as a flat organization in Russia.

Following this logic, words are not always as important as the context, which might include the speaker’s tone of voice, facial expression, gestures, etc. Consequently, face-to-face discussion is the standard for business in Russia. Although the telecommunication infrastructures allow talking on the phone (which is very much used) or to send faxes and emails, the traditional Russian business person regularly goes on “komandirovka” (business trip) in order to talk about the deal in direct.

## A Circular Way of Thinking

High-context cultures such as Russia favor a circular way of thinking. When a set of problems needs to be addressed (such as discussing a contract) circular thinkers will approach the deal as a whole. In the opposite direction, linear thinkers like to resolve problems one at a time. Therefore, when two teams with opposite thinking models meet,

frustration may run very high. One team will wish to solve all the issues present on the order of the day while the second one will focus on reaching a general deal where long term relationship and vision outweigh the technical details. In order to reconcile those two models apparently opposite, one way is to plan ahead, with a representative of each team, a flexible order of the day with the possibility to alter it till the last moment.

Finally, the schedule needs to be precisely planned with numbers of breaks to allow the Russian side to recap the past discussion (especially if the discussions are not conducted in Russian) but more importantly to allow necessary one-to-one small talks useful to clarify misunderstandings and defuse burgeoning frustration.

To conclude, we could say Russians are moderately high context. Once again, the supposed Asian influence is quite absent. Actually, Russian features both elements of low and high context cultures. On the low context side, Russians do like precise information, especially in written form. Letters, emails or PowerPoint presentations may be overloaded with details, in order to provide as many specifics as possible. However, in oral communication, Russians display relatively high context habits. Therefore, in case of emergency (often, because of its particularistic/constraint features), a phone call is favored over written communication.

## **Direct/Indirect**

Russians are, overall, relatively direct in their communication. However, the situation will have a strong influence. For instance, Western powers diplomats are regularly surprised (even shocked) by the direct approach of their Russian counterparts. Contrary to many countries, the diplomatic line of Russia is very clear.

In business, Russians will also display direct communication style, but the situation might influence it. Actually, it depends exclusively on the degree of hierarchy existing in the relationship. If the discussion is top-down, the style can be very direct, even brutal. This is a constant problem foreign manager's face when they have to manage Russian subordinates, as their communication appears not clear enough. On the contrary, when the communication is Down to Top, the style will be quite indirect, in

order not to embarrass the person seen as having a superior status. In public, a Russian subordinate will never tell the boss is wrong.

When the relation is equal, then the communication style is quite direct, with ideas presented clearly and without coating.

## Organizational Structure

Russia is a Hierarchical and Diffuse society. It implies managers have a very respected position within an organization. From the outside, the communication style of the manager does appear direct and emotionless. However, from the inside, a manager must display a paternalistic behavior with the team. This means being demanding and controlling each individual, but also trusting and caring for those subordinates.

Typically, Western managers are accused not to engage themselves enough by keeping a distance with their local staff, and not to trust them enough by controlling in an inappropriate manner. A Russian manager often plays the father (or mother) figure within the team and the organization itself: No matter what happens, a manager is supposed to stand by the team, to cover it. Public criticism of a member of one's own team is immediately seen as a loss of trust, as a humiliation. President Medvedev accused the former mayor of Moscow Yuri Luzhkov of having 'lost his trust' to fire him.

However, behind closed doors, the criticism can (and often is) very violent, personal and in front of the other team members. This is acceptable, as long as the trust that such rebuking is not to be made public, outside the team.

This attitude explains why Russians can be extremely protocol oriented, while displaying very loud and familiar behavior in a private environment.

## Haptics and Proxemics

Contrary to stereotypes, Russians have a low tolerance for physical contact in social and business relationship. While a handshake is common between men at the office, women usually say hello without contact.

Hugs are not very common and a pat on the shoulder will be for really close people, usually family members. Only people considering each other friends will kiss on the cheek. To prove wrong the famous graffiti Fraternal Kiss by Dmitri Vruble on the Berlin Wall, men rarely kiss in Russia. It is actually ironic to think that displaying Leonid Brezhnev's behavior today would surely be sanctioned as propaganda of "non-traditional sexual relations"...

As far as physical distance between people is concerned (Proxemics), Russian can be considered very close. It is particularly striking when observing people lining at an ATM, with a 'discretion zone' being more virtual than physical! Customs agents in Russian airports regularly have to ask passengers to wait behind the yellow line, and not come together in front of the window despite clear sign forbidding it (particularistic culture...). Foreigners visiting the country often have the feeling people behind them are trying to look over their shoulder, and feel uncomfortable. Frequently, passengers entering public transport during rush hours feel somebody's finger pushing their back to make way.

## Conclusion

Russia's obsession with strength is closely associated with its desired position in the world: That of a powerful, independent country that has an influence on world events. Geography is one of the sources of this image. Following the fallacy that large territory = large population = powerful country, many Russians are convinced their country is meant to play this "big" role in the world. The other sources of this vision are the size of its nuclear arsenal (the world's largest), and, of course, its wealth of natural resources. Defense, land, and resources allow Russia to be self-sufficient if needed, a rare—if not unique—capacity in today's interconnected world.

The recent foreign adventures (Georgia, Crimea, Donbass, and Syria) has showed the world and maybe more importantly, the Russian population, that Russia is back on the international stage. Those actions have been carefully wrapped into a massive media coverage in order to leverage its effect on the viewers: in a power-orientated country living in a

media era, how strong you appear easily trumps how strong you really are.

This belief in its self-sufficiency, allied to an ever-present calling that the country has a mission to play in the world, largely explains the confident and even martial attitude displayed by the Russian leadership recently. Whether diplomatically (Syria, Ukraine), economically (Gazprom's strategy in Europe) or internally (hundreds arrested during anticorruption protests, closure of the Jehovah Witnesses organization, the introduction of Blasphemy laws, censorship on the internet, etc.), Russia intends to play hardball.

However, this fervently believed strength has one central Achilles' heel: it is dependent on external elements, in particular, the price of commodities. The sudden drop in oil prices together with the sanctions and counter-sanctions have seriously impacted the standard of living of the population. Despite strong incentives, local producers have difficulty proposing national substitutes for the foreign banned produces. The exchange rate drop of the Ruble has significantly reduced the purchasing power of all. Today's Russia suffers the classic limits of petro-economies: the dependence on commodities has hampered the development of other industries.

By focusing exclusively on the development of natural resources, through a state-controlled oligarchy, at the expense of an open economy and society, the Kremlin has indeed intensified the fragility of the country to face the future. After one decade of rapid resource-based growth, stagnation appears as the most optimistic scenario for the future. This economic slowdown is likely to trigger discontent among a population that will no longer tolerate a high level of corruption and cronyism if its personal well-being is at risk. Because the political system in place prevented a legitimate opposition to blossom, the temptation will be strong to fill an empty political ideology with religious values or new foreign adventures. This course would limit the growing resentment from home-grown hardliner nationalists that tend to become uncontrollable.

The Russian culture, traumatized for most of the twentieth century, has not been allowed to settle and mend its historical roots during the turbulent post-Soviet period.

There is every reason to think that Russian identity will stabilize no time soon, given the uncertain and highly fragile path taken by the country recently.

## Notes

1. Мы, многонациональный народ Российской Федерации, соединенные общей судьбой на своей земле, утверждая права и свободы человека, гражданский мир и согласие, (...) принимаем Конституцию Российской Федерации.
2. *Quoted by WikiLeaks.*

## Bibliography

- Arrignon, J.-P. 2003. *La Russie médiévale*, Belles Lettres.
- Benaroya, F. 2005. *L'économie de la Russie*, Editions La Découverte.
- Cameron, R. 2002. *A Concise Economic History of the World: From Paleolithic Times to the Present*. Oxford University Press.
- Carrère d'Encausse, H. 2002. *La Russie inachevée*, Le livre de Poche.
- Courtois, S. 1999. *Livre noir du Communisme: Crimes, terreur, répression*. Harvard University Press.
- Custine, A. de. 1975. *Lettres de Russie, la Russie en 1839* Gallimard.
- Crane, R., Alas R., and Dumetz, J., 2016. Paving the Path to Peace in the CEE: Is Culture a Way to Peace? *Human Capital* 3 (19): 49–57.
- Dumetz, J., O. Saginova, P. Woolliams, D. Foster, R.M. Belbin, F. Trompenaars, C. Hampden-Turner. 2012. *Cross-cultural Management Textbook: Lessons from the World Leading Experts in Cross-cultural Management*. CreateSpace Publishing.
- Figs, O. 2003. *Natasha's dance*. Penguin publishing.
- Guroff, G., and F Carstensen. 1983. *Entrepreneurship in Imperial Russia and in the Soviet Union*. Princeton University Press.
- Hamsun, K. 2004. *In Wonderland*. Ig Publishing.
- Kets de Vries, M. et al. 2005. *The New Russian Business Leaders*. Edward Elgar Publishing.

- Landry, T. 2001. *La valeur de la vie humaine en Russie (1836–1936)*, L'Harmattan.
- Lewis, R. 1999. *When Cultures Collide: Managing Successfully Across Cultures*. Nicholas Brealey Publishing.
- McKay, J. 1970. *Pioneers for Profit: Foreign Entrepreneurship and Russian Industrialization, 1885–1913*. University of Chicago Press.
- Miller, S. 1997. *Mastering Modern European History*. Palgrave Macmillan.
- Mitrokhin, V. 1999. *The Sword and the Shield: The Mitrokhin Archive*. Basic Books.
- Mole, J. 1995. *Mind Your Manners: Managing Business Cultures in Europe*. Nicholas Brealey Publishing.
- Peskov, V. 1994. *Lost in the Taiga: One Russian Family's Fifty-Year Struggle for Survival and Religious Freedom in the Siberian Wilderness*. Doubleday.
- Pipes, R. 1997. *Three "Whys" of the Russian Revolution*. Vintage.
- Richmond, Y. 2003. *From Nyet to Da: Understanding the Russians*. Intercultural Press.
- Ruckman, J. 1984. *The Moscow Business Elite: A Social and Cultural Portrait of Two Generations, 1840–1905*. Northern Illinois University Press.
- Shashoua, R. 2007. *Dancing with the Bear: A Serial Entrepreneur Goes East: An Entrepreneur Goes East*. Global Market Briefings.
- Taleb, N. 2013. *Antifragile: Things That Gain from Disorder*. Random House.
- Trompenaars, F. 1993. *Riding the Waves of Culture*. The Economist Books.
- Various authors. 1995. *La Russie et l'Europe, XVIe-XXe siècles*, Editions de l'Ecole des Hautes Etudes en Sciences Sociales.
- Wallace, D. M. 2004. *Russia*. Kessinger Publishing.
- Карамзин Н.М., 2010 *Полный курс русской истории в одной книге*, Астрель.
- Ключевский В.О. 1993, «Русская история». Полный курс лекций. - М., «Мысль».
- Соловьев С.М. 2009, «История России». – Аст, Астрель – СПб, ВКТ.



# Czech Republic: At the center of Europe

Ludmila Štěrbová and Jérôme Dumetz

## Introduction

The Czech Republic is a high income, landlocked Central European country of 78,866 square kilometers in surface area and approximately 10.6 million inhabitants. It shares borders with Poland, Slovakia, Germany, and Austria (Daubner 2013). The capital of the CR is Prague with 1.2 million inhabitants. The second largest city is Brno, the “capital” of Moravia, with 0.4 million residents.

In July, 2016, an alternative short English name, “Czechia” (BBC 2016), for the Czech Republic was officially confirmed and it is listed in the United Nations’ databases as the official short name of the CR (Hirsch et al. 2016).

---

L. Štěrbová  
University of Economics, Prague, Czech Republic

J. Dumetz (✉)  
Unicorn College, Prague, Czech Republic  
e-mail: jerome.dumetz@clamart.net



**Fig. 1** Czech Republic in Central Europe. *Source* Peter Hermes Furian/Alamy stock photo

The official language—Czech—belongs to the group of Slavic languages. Due to historical, educational, and international influences, Czech people speak often at least one foreign language.<sup>1</sup> The CR is a country of one nation, however with large minorities.<sup>2</sup>

At the beginning of the twenty-first century, the Czech Republic had accomplished the key criteria for membership in the European Union. Thus, the CR proved it had established stable institutions guaranteeing democracy, had implemented the rule of law, had fully respected human rights and the protection of minorities and had implemented a functioning market economy, thus ensuring the capacity to cope with the competition in the EU and to take on and implement the aims of political, economic and monetary union (European Commission n.d.). Consequently, on May 1, 2004, the Czech Republic joined the EU. Later, the country became a part of the Schengen area with a free circulation of people without border control (European Commission n.d.) (Fig. 1).

## History

Before achieving this point, the CR lived a very long *history of political and economic changes* that influenced and are still influencing the Czech psychology, culture, way of thinking, and way of approaching different challenges and tasks.

The first Boii (Bohemians) came to the territory of today's Czech Republic in the 3rd—1st century BC. In the seventh Century, the Moravian Empire was founded and under it, the Duchy of Bohemia in the ninth century. The country flourished under the reign of Wenceslaus at the beginning of the tenth century. The succeeding Přemyslid dynasty transferred the center of power to Bohemia. As a result, the Duchy became the Kingdom of Bohemia which gained relative independence within the Germanic Holy Roman Empire in 1212. The Kingdom reached its greatest territorial expansion in the fourteenth century as the Crown of Bohemia. Under the reign of Charles IV, King of Bohemia who was also the Holy Roman Emperor, and a great patron of the arts and culture, Prague even became the imperial seat of power and remained so from the fourteenth to the seventeenth century. The popular movement against the Roman Catholic Church in the fifteenth century by Protestant reformers, commonly referred to as the Hussite Wars, significantly marked Czech history and showed that the people can effectively act against the nobility. Starting in the sixteenth century, the Crown of Bohemia was integrated into the Habsburg Monarchy. One century later, in 1620, the Protestant revolt of the Bohemian nobles against the Habsburgs started the Thirty Year War during which the country was germanized. After the dissolution of the Holy Roman Empire in 1806, the Kingdom of Bohemia became part of the Austrian Empire. The Czech language was revived as a part of romantic nationalism.

The modern state Czechoslovakia was established in 1918, after the defeat of Austria-Hungary, when several centuries of Habsburg governance came to an end. This new country united Czechs and

Slovaks in one state. Czechoslovakia was composed of four territories: Bohemia, Moravia, Silesia, and Slovakia. Czechoslovakia became a rapidly developing industrial society with a democratic system and a rich cultural and intellectual environment. Before the Second World War, the Munich Agreement of 1918 led to the annexation of border territories of Bohemia by Germany, and later, in March 1939, to the German occupation of the country. The Munich Agreement is still considered by Czech citizens as treachery by France and Great Britain, then Czechoslovakia's allies. At the end of the Second War, the agreement among France, Great Britain, the USA, and the Soviet Union acknowledged Czechoslovakia as being in the Soviet sphere of influence. This link was further deepened when the Communist Party of Czechoslovakia seized power and full control of the state through democratic elections and established a so-called socialist state in 1948. In 1968, increasing dissatisfaction with the regime culminated in a reform movement known as the Prague Spring, which ended in a Soviet-led invasion of the country. All democratic reforms were terminated and a twenty-year period of so-called normalization further strengthened the Soviet dominance that ended only 40 years later in 1989 with the Velvet Revolution. The Revolution ("Velvet", as it was smooth and without casualties) started as an officially approved student demonstration celebrating the International Day of Students on 17th November. However, the students confronted the police forces in the center of Prague. Extensive demonstrations with Vaclav Havel in the forefront followed, The Communists resigned from the government and Vaclav Havel was elected president on 29th December, 1989.

From 1st January, 1993, the state split into the Czech Republic and the Slovak Republic, based on the initiative of the Slovakian representatives. The Czechs did not want the country to be divided. Even if the economic circumstances and objectives of the two emerging market economies varied significantly, both applied for EU membership, and both joined the EU with other eight countries in the so-called Eastern Enlargement (EUR-LEX 2007).

## Political and Legal Environment

The CR, as well as Slovakia, became successors to Czechoslovakia in the United Nations and its agencies, in the GATT agreement<sup>3</sup> followed by the WTO and in other international organizations and agreements such as the International Monetary Fund, World Bank, Council of Europe, and the Organization for Security and Cooperation in Europe. The Czech Republic became a member of the OECD in 1995 and of NATO in 1999. It is a founding member of the Visegrad Group, an informal group of four central European countries (Hungary, Poland, Slovakia, and Czech Republic), whose goal is to promote common interests within international communities, including the EU.

The Czech Republic is a *politically stable* parliamentary democracy. The Czech Constitution and the Charter of Fundamental Rights and Freedoms are the supreme laws. Power is divided among Legislative, Executive, and Judicial functions. Legislative power is formed by the bicameral Parliament with its 281 members, elected by popular vote. The Parliament consists of the Senate (upper house, 81 members elected for six years) and Chamber of Deputies (lower house, 200 members elected for four years). Executive power is represented by the President, the Prime Minister as head of government and administrative bodies. The President is elected by direct public vote for five years for a maximum for two terms. The Judiciary is formed by a system of hierarchical courts whose judges are independent and impartial (Kábelová 2010).

The main political parties are usually centrist, center right or center left.<sup>4</sup> It is interesting that the Communist Party as an extreme leftist group has been always represented in the Parliament, while other parties and change their positions.<sup>5</sup> The composition of the governmental coalition depends on the result of the elections. Parties need to secure 5% of the vote in order to obtain parliamentary representation (Santader 2017). Participation of the Czech population in the political process is lower than the OECD average and represents about 59% (OECD n.d.).

The *legal environment* of the CR is fully compatible with that of the European Union (European Commission n.d.), including the

commercial, accounting and bankruptcy laws, and corresponds to Western standards. The Czech Republic has implemented all the EU common policies, regulations and directives. International treaties that the CR signed, the common and coordinated policies and national legislation establish the basis of the Czech business environment as a part of the EU single market that guarantees free movement of goods, services, capital, and persons. The EU policies with a strong influence on the business environment are the commercial, consumer, investment, and intellectual property rights policies, technical and hygienic norms, and transportation and environmental policy. At the national level, with respect to international regulations and EU directives, there are export promotion, incentives for establishing a business, and investment incentives.

## Economic Environment

The *economic policy* is consistent and predictable. The transformation of the Czech economy started after the Velvet Revolution. As the way forward after Communism, shock therapy through structural, systemic, and institutional changes was applied. The state-owned property was privatized, external economic relations, and prices were liberalized, and the convertibility of the currency was soon achieved. The main task, privatization, took on three directions: restitution through which the legitimate owners received their property that had been nationalized under the communist regime; small privatization (restaurants, retail shops, hotels, etc.) organized through auctions; and large privatization, called coupon privatization, in which each citizen could participate by receiving companies' shares. Restitutions and privatizations were a cause of very many disputes and discussions. Some companies were privatized through foreign direct investment—among them, the best known is Skoda—Volkswagen car production. Currently, in the Czech economy, there are very few companies that are not fully privatized.

Economic position of the Czech Republic can now be characterized as small, very open, export driven, with important FDI (Foreign Direct Investment) stocks and small FDI outflow, with an important part of

global value chains (65% of total Czech foreign trade) and a positive trade balance since the EU accession. In 2016, the Czech GDP per capita increased to 17 257 USD. GDP in nominal prices is 182 billion USD and represents 0.29% of world GDP (in Purchasing Power Parity). The unemployment traditionally was quite low, not exceeding 9% even during the crisis of the early twenty-first century. At the beginning of 2017, unemployment was about 4%. The economy exports<sup>6</sup> machinery, transport equipment, manufactured goods, and chemicals and is oriented toward tourism and transportation. It imports the same type of products and is dependent on fuel, gas and other mineral imports. The openness of the economy is about 80%, depending if the cross-border or national concept is used (Český statistický úřad n.d.). The majority of trade exchanges is done with the countries of the single market (88%), particularly with Germany, Poland, Slovakia, the United Kingdom, and France. Outside Europe, the most important trading partners (importers) are the Russian Federation and China.

Among Central and Eastern European countries, the Czech Republic is one of the most developed industrialized economies. Its production is concentrated in manufacturing, the automotive industry, engineering, especially chemical and electro-technical engineering. The country's technological background lies in research and development of platforms (middle to high technology), compact and high-quality infrastructure, a high share of secondary and tertiary education, good universities, qualified labor, technological parks, and industrial zones. The GDP is composed of 37.5% industry, 2.5% agriculture and 60% services. The main driver of economic growth is domestic demand. Investment growth is volatile as it depends mostly on foreign direct investment. The CR offers very good conditions for both green-field and brownfield investments, joint ventures, and mergers and acquisitions. Potential sectors for such investment include aerospace, nanotechnology, automotive, energy, electronics, business support services, financial services, tourism, advanced engineering, life sciences, or ICT. To attract specific FDI, a generous and transparent system of investment incentives is available to foreign as well as home investors, such as tax holidays, job creation, training or cash grants. A specific governmental institution, Czechinvest, provides support for investors in their projects targeted at

the Czech Republic. As for the investment risk, the CR has been ranked in 2015 at AA—by Standards and Poors, at A1 by Moody's and at A+ by Fitch.

Exporters from the CR can use different instruments of export promotion. All tools are designed in compliance with the WTO (World Trade Organization) agreement on subsidies and the OECD Consensus on export financing and respect EU directives. Export financing in the form of export credits under more advantageous interest rates than are commercially available is ensured by the Czech Export Bank (CEB). The insurance of export credits under advantageous conditions is provided by the Export Guarantee and Insurance Company (EGAP). To enjoy government export support, the exported products should be at least 50% produced in the Czech Republic. Furthermore, information support is provided by the trade promotion organization, CzechTrade, and by other governmental institutions such as Czech (Cultural) Centers abroad, Czech Tourism, and Czech embassies.

The Czech currency is fully convertible and based on the managed floating. All international transfers (e.g., profits and royalties, including repatriation) related to a business and investment can be carried out freely and without delay. The independent Central Bank (the Czech National Bank) has maintained currency stability since 1991, with some periods of intervention. The Czech Republic has the obligation to join the EU Monetary Union and currently fulfills all the Maastricht convergence criteria, but still not yet decided on participation in the European Exchange Rate Mechanism.

The Czech Republic, as a member of the WTO and OECD, ensures national treatment for foreign citizens, goods, and services and does not discriminate against foreign investors in privatization sales. Foreign legal entities are allowed to conduct trade activities, including the acquisition of real estate, under the same conditions and to the same extent as Czech entrepreneurs. Foreign citizens may become founders or co-founders of a company, or may join an existing Czech company. In the area of investment protection, the CR respects its membership in the Multilateral Investment Guarantee Agency and has signed some 95 bilateral investment treaties that support and protect foreign investment and establish rules for possible investment disputes between the investor



and the Czech government. Protection of intellectual property rights is based on the implementation of the proper agreement of the WTO (TRIPS—Trade-related intellectual property rights aspects agreement), World Intellectual Property Organization agreements and respective EU directives. For IPRs (Intellectual property rights) enforcement, the CR has established a specialized Court in order to ensure a speedy solution of the IPRs cases.

The CR's tax system was introduced in 1993 and is similar to the systems of developed Western European countries. Tax laws are, however, subject to frequent amendments (Czech Legislation n.d.). The current system is composed of corporate income tax, personal income tax, value-added tax, excise tax, road tax, real estate tax, real acquisition tax, and energy tax. The Czech Republic has signed treaties to prevent double taxation with many countries, including all EU countries, Switzerland, the United States, Canada, Japan, and Australia. Double-taxation treaties cover also taxes on dividends, interest, and royalties. Except for taxes, the employers and employees pay social security and healthcare insurance contributions.

As the CR lies within the EU which is a Customs Union, customs duties are not charged for the importation of goods at the Czech borders with exception of international airports. The goods exported or imported to the CR are considered as intra-EU trade. The customs duty is charged in conformity with the EU Customs Tariff (TARIC) that provides different tariffs for specific goods, based on whether it is a Most Favored Nation (MFN) partner country or a preferential trading partner. The EU provides preferential customs tariffs for imports from countries with which it signed preferential trade agreement or to which it provides unilateral preferences. MFN tariff applies to all other imports, except for customs tariff on goods, each good and service is subject to value-added tax (VAT) that is charged on the basis of the destination principle on cross-border supplies (no VAT is chargeable to the supplier, and he is entitled to deduct VAT paid on purchases related to supply to another country).<sup>7</sup>

In the Czech economic environment, corruption has not yet been eliminated. The Corruption Perception Index indicated in 2016 a value of 55/100 (no corruption at all is indicated by 100) (GlobalEconomy.com 2017).

According to the Global Competitiveness Index (World Economic Forum 2016), the Czech Republic holds 31st position for 2016 (out of 138 countries)—the best ranked indicators were macroeconomic stability and health and primary education; the worst were institutions, market size and labor market efficiency. According to the World Bank Doing Business (World Bank n.d., World Bank 2017), the CR is ranked at 27th position out of 190 countries. The best indicators are trading across borders (no burden and procedures at borders), getting electricity, and resolving insolvency. The worst indicators were starting a business because of complicated, long procedures, and high costs, then dealing with constructions permits and enforcing contracts.

## Social and Cultural Environment

Czech nationals often display moderate behavior when confronted with cultural dilemmas. Only in a very few cases are their underlying cultural preferences clearly revealed. This phenomenon is most likely the result of multiple influences that shaped the culture over the centuries. Originally of Slavic background (along with Russians, Poles, or Serbs to name a few), the Czechs have been heavily influenced by Germanic cultures such as Germany (through the Holy Roman Empire) and then Austria (through the Austrian-Hungarian Empire).

**Particularism/Universalism** is about choosing between agreed upon rules or bending existing rules to fulfill commitments in a relationship (Trompenaars 1993). Czech culture is mildly universalistic. As a consequence, promotion criteria may highly value professional competency but the ability to approach people and build private contacts might make a difference. Yet, success depends greatly on connections with influential people. As a clear link exists between particularism and corruption, the country is ranked at an intermediary level (#47/178 countries according to Transparency International in 2016), hence confirming the culture's tolerance for cronyism and corruption in public affairs. If breaking the rules (or the law) is tolerated in some cases, it is however not seen as a positive feature.

Hofstede's *Uncertainty Avoidance*, a concept close to Particularism/Universalism, is quite high in the Czech Republic. This dimension involves the extent to which ambiguous situations are threatening to individuals, the extent to which rules and order are preferred and the extent to which uncertainty is tolerated in a society. The Czechs are not fond of uncertainty and much favor situations which are clear and not ambiguous.

Trompenaars' *Specific/Diffuse* dimension. A diffuse culture means the division between one's public and private life is not really clear. In other words, you belong to the inner circle of your friends, and you ignore (at best) the individuals outside your life (Trompenaars 1993). Presented in a simple manner, diffuse cultures treat relationships in a very simple way: we are friends or total strangers to each other. Diffuse people are relationship orientated, sometimes called "Being"; while their alter ego, the Specific cultures are more Task orientated, otherwise called "Doing".

The Czechs are ranked quite Specific by Trompenaars (2016), with a score of 80/20. It means they are more "doing" than for instance their Slovak neighbors (TMC 2015). The Czechs like a clear boundary between their private lives and business lives and are not in the habit of talking about their private lives in the workplace.

The Czechs appreciate the frankness and simple, clear and precise explanations which facilitate understanding. They may be relatively direct, to the point, when exchanging and colleagues and partners. To sum up, good relations are important at work, in negotiations, and generally, in everyday's life encounters. Naturally reserved and direct, Czechs prefer to focus on the work at hand. "Small talk" should be kept to a minimum.

**Trust** as a cross-cultural dimension deals with the amount of trust existing naturally among individuals (Covey 2008). In other words, are we engaged in a relationship with trust (e.g., father and son), or without trust (e.g., a client and a banker). When trust exists, time and money are saved (a handshake will do). When there is no trust, time and bureaucracy take over (for example, security checks in airports). Rankings (World Values Survey 2004) show that the Czech culture belongs to the group of countries with little spontaneous trust. Indeed,

one must have the right connections, or to have known someone for a long time to be ready to work with him. Task orientated, they place their trust and confidence in people whose discipline and expertise have been demonstrated.

Religion plays a decisive role here, with individuals from countries of Catholic traditions tending to trust each other less than those living in countries of Protestant influence. Can worshipers be entrusted to interact directly with God, or should an intermediary (a priest, the Pope, etc.) be the guarantor of this trust?

The Czech Republic is the 3rd most atheistic country in the world (Gallup 2012). This observation could lead to the conclusion Czechs are more trusting than their Catholic neighbors (such as the Poles or Slovaks) but further evidence would be needed as the practice of religion is declining in those countries.

**Collectivism/Individualism** Who needs whom? Does the group need the individual and therefore accepts his individuality, or does the individual agree to adapt to the group's requirements in order to maintain harmony. In the Trompenaars analysis, the Czech Republic showcases a high level of Individualism, with a result of 90/10 (THT 2016). Hofstede also ranks the country as individualistic: 58 for the Czech Republic (Hofstede 2016). Such results would indicate a culture, which tends to reward individual initiative moderately and achievement over consensus decision-making and group work. It is true that overall, the Czechs consider people to be independent and responsible for their actions. They are strongly attached to the values of autonomy, merit, and reward for hard work. However, the weight of history has to be taken into account here. Visitors to the country's capital working in new industries are correct to expect individualistic behavior from their Czech hosts. However, the same visitors should expect more collectivistic attitudes in organizations with a longer history, such as brown field factories or state bodies born in the Communist period.

Another explanation from history can be found in Kolman et al. (1999), who investigated the belief that inherited traditions are used to justify the difference in industrial development. Because the Czechs used to have single heirs, the young Czechs used to go to the city to

earn a living and this developed a stronger sense of individualism and also laid the groundwork for modern industries. Today, the Czechs are not only more individualistic than their neighbors, but they also rely more on the industry.

**Hierarchy** is also called Power Distance in cross-cultural management (Hofstede 1980). This is a simple concept to understand: some cultures enjoy hierarchical relationships among their members (at work, in the street, or at home), while others, more egalitarian, value equality. In this study, the authors have observed Czech society to be conservative as far as the roles of men and women are concerned. This hierarchical propensity explains also why displaying one's status is seen as a path to getting one's way.

Hofstede's study of Czech power distance is subject to disagreement. Geert Hofstede publishes the ranking of power Distance for all countries on his website. The score in 2001 for the Czech Republic was 57 (max. 100) while for neighboring Slovakia it was 100! Were we to accept this data, the Czech should be moderately hierarchical (yet much higher than Germany, which is ranked at... 35, and even Japan which is *moderately* hierarchical with 54), the Slovaks should be aiming for the stars with stellar ranking, displaying the highest (together with Malaysia) Power Distance Index in the world! Anyone accustomed with both cultures knows such a massive gap is absolute nonsense.

However, regardless of Hofstede's score, it is clear that the Czech Republic is hierarchical. Top managers enjoy unquestioned power in organizations and the organizational culture of many companies is both hierarchical and relationship orientated, a combination called "Family" by Trompenaars (1993). In such an organizational culture in which hierarchy is particularly pronounced, an employee may make suggestions to his superior who will listen attentively to these and take them into consideration. This strong respect for hierarchy has also the negative effect of allowing subordinates to pass off any responsibility to the next level of management, hence concentrating decision-making and power.

Another cultural dimension linked to hierarchy is how groups accord *status*. According to Trompenaars (1993), Achieved Status cultures

give importance to past results, achievements or recent successes. Contrariwise, Ascribed cultures believe status depends on the intrinsic characteristics of the person, such as seniority, gender or social connections. In this analysis, a first ascertainment is that the use of titles in correspondence is very important in the Czech Republic. However, this would be misleading to conclude that the Czech Republic is Ascribed today. Indeed, if ascription was the norm in Communist Czechoslovakia, when the East European countries opened up, many national and foreign companies promoted young people to management positions based on their studies abroad, language skills and their competitiveness. The older generation was viewed as less “experienced” managers because of their Communist background. A new, ambitious generation has reached high positions in the hierarchical organizations and acquired strong status recognition.

According to Hofstede’s *Masculinity* index (Hofstede 1980), the so-called “Feminine” societies have a preference for resolving conflicts by compromise and negotiation, while in masculine countries there is a feeling that conflicts should be resolved in an assertive way. We are here again confronted with a statistical problem as country rankings present the Czech Republic as a feminine country (Masculinity index is 57) although practice tells a very different story. (Hofstede website 2016). Once again, Slovak culture is presented as very different from its Czech counterpart while reasonably; those two countries do not display such strong differences. Luckily, other tools (TMC 2015) rank the degree of *cooperation vs. competition* and the Czechs appear slightly cooperative.

When analyzing displays of *emotions*, statistically, the Czech culture belongs to the middle group of countries in terms of assertiveness. It means individuals are not particularly aggressive in their relationships. We are in the presence of a culture that does not favor *emotional* arguments over reason. Reserved and formal, the Czechs do not display their emotions openly in a professional environment. They can be rather distant toward strangers and do not smile at them. Facts and figures will be more effective in convincing a counterpart than emotions. Shouting, weeping and the like are not seen as professional in the Czech Republic. Also, the decision-making process can be quite slow, an unhurried, methodical approach to analyzing a project will be preferred over a sense of priority or the use of emotion.

External vs. Internal *locus of control* concerns how much individuals believe they control their own lives. The Czech nationals feel quite externally controlled (like most countries in the world), which means they believe external forces have a significant influence on their lives (Rotter 1966). As the Czech feels little connection with religious beliefs, the impact of religion is probably greatly overshadowed by the influence of history, namely being governed by a Communist regime for many years. During this period, characterized by a strong centralization of all aspects of life, individuals acquired the habit of having an external force (the Communist party) decide for them. To many of them, it was nonsense to fight for a different way of being. All aspects of economic and social life were controlled and planned by leading Communist party members and people could rarely decide for themselves elements closely connected with their lives. This regime ended only 25 years ago and obviously, its influence is still deeply rooted in people's minds today.

Many cultures require a logical process and all details before reaching a conclusion. Representatives from those “*Deductive*” cultures are often at odds with colleagues from “*Inductive*” cultures who need just enough information to justify a decision (Foster 2000). In other words, should we first present a project from its conceptual, theoretical perspective, or by showcasing the desired results in the form of examples, models or a plan of implementation?

The Czech Republic belongs to moderately Deductive cultures (Dean Foster Associates 2014), meaning that theory, processes, and details are essential to convincing a counterparts. Methodical and rational, the Czechs display a high degree of logical reasoning while backing up their arguments with facts. This coincides with a neutral attitude towards emotion.

## Time-Related Cultural Dimensions

Time is a major element of cross-cultural management. Among the topics of interest within this category, the *Past/Present/Future* orientation of both countries is most instructive for this cultural review (Kluckhohn 1961). Even if a gap exists among generations (older ones tend to be

nostalgic for the past... everywhere!), the country is usually considered “Present” oriented which means past events are of lesser importance than current aspects: Brand reputation, for instance, is likely to be more quality based than history-based. When presenting oneself, a member of an organization is likely to stress his/her title, tasks, and responsibility instead of his career evolution in the firm or how many years he has been working at this location (typical past orientation greeting style).

Another element of Time is whether cultures are *short-or long-term orientated*. This statistic reflects the degree to which a community encourages and rewards future-oriented behaviors, such as planning and delaying gratification.

For instance, one could argue that buying versus renting one’s residence could show some longer term orientation. Figures show a residential debt to disposable income of household ratio to be 24.9% for the Czech Republic (European Mortgage Federation 2012). Such finding could confirm Hofstede’s Long Term Orientation index of 71 for Czech Republic. However, observation shows more a short-term orientated culture, despite Hofstede scoring as a long-term-oriented country. The mortgage ratio mentioned is the lowest in Europe after Slovenia.

Time is also analysed as *Monochronic versus Polychronic* cultures (Hall 1973). While Monochronic cultures view time in a linear manner with clear segmentation of tasks, polychronics tend to have a holistic understanding of time, where effectiveness is favored over efficiency. This viewpoint also influences one’s punctuality, monochromic people being keen on being on time as a show of respect to their counterpart’s agenda. In this case, we may label cultures *Fixed or Fluid* toward their time orientation. For this analysis, the Czech nationals highly value punctuality and view time as a precious resource which should not be wasted. The Czechs’ compliance with deadlines and a high degree of punctuality are essential if you are to be credible. Visitors counting on a Slavic influence are often surprised by the strictness with which the Czechs enforce timetables. It is therefore important to arrive on time and to justify any lateness (The local transport systems are efficient and should not be used as an excuse).



## Conclusion

Analysis of the CR from the perspective of political and economic stability shows that the business environment is stable, transparent, and predictable, with a long-term perspective of a positive development. EU membership and participation in various international organizations and systems ensure compliance of the legislation and business regulation with other developed countries. The Czech government supports entrepreneurship, investment, and exports within its strategies and non-discriminatory rulings. Given the size of the economy and its involvement in globalization and international trade, it is, however, sensitive to economic crises and other negative external factors. There are as well some obstacles that the incoming business faces, such as administrative procedures and corruption.

Culturally speaking, the Czech Republic fits with its geographical location, at the center of Europe. While its Slavic roots underline its proximity to other Slavic peoples on its Eastern flank, the historic relationships with Germanic lands on its Western and Southern sides have profoundly influenced the mentality and behavior of the population. This is particularly evident in the business environment where peers value punctuality, protocol, and task orientation. The Czech cultural factors have been instrumental in the current economic dynamism of the country, and are characteristic of steady development in the future.

## Notes

1. The oldest generation that has been born before the Second World War speaks prevalingly German, the middle generation born from 40ties to 60ties speaks Russian and the generation from 70ties speaks English.
2. Except of minorities of boarder nations, the most important minorities are Vietnamese and Ukrainians.
3. Czechoslovakia was—among 23 countries—a signatory state of the GATT agreement in 1947.
4. Current coalition government is represented by the Czech Social Democratic Party (CSSD)—center-left; Action of Discontented

Citizens ANO—center; Christian Democratic Union—Czechoslovak People's Party (KDU-CSL)—center-left; Other notable parties: Civic Democratic Party (ODS)—center-right; Communist Party of Bohemia and Moravia—extreme left; TOP09—center-right.

5. At the same, the communist party has never been a member of any governmental coalition. (The next parliamentary elections will be held in 2017; and the presidential in 2018).
6. The group of goods are provided according to the SITC classification and the cross boarder concept of trade balance.
7. The VAT in the CR is currently 21% for the most of goods and services. 15% or 10% are applied for food, pharmaceutical products, books, construction services, etc. The Czech VAT system contains a concept of registration for VAT purposes in order to become a Czech VAT payer.

## Bibliography

- BBC. 2016. Czech Republic-Timeline. [Online]. Available at: <http://www.bbc.com/news/world-europe-17220571>. Accessed 02 May 2017.
- Český statistický úřad. n.d. Zahraniční obchod se zbožím – časové řady. Available at [https://www.czso.cz/csu/czso/vzoph\\_cr](https://www.czso.cz/csu/czso/vzoph_cr). Accessed 04 June 2017.
- Covey, M. 2008. *The SPEED of Trust: The One Thing That Changes Everything*. New York: Free Press.
- Czech Legislation. n.d. Tax System in the Czech Republic. [Online]. Available at: <http://www.czechlegislation.com/en/taxes>. Accessed 03 May 2017.
- Daubner, P. 2013. Česká Republika-úvod, územní a geologický vývoj. ČR-základní údaje. [Online]. Available at: <http://skompasem.cz/clanky/ucebnice-zemepisu/ceska-republika-uvod-uzemni-a-geologicky-vyvoj-petra-daubner.html>. Accessed 01 June 2017.
- Dumetz, J. 2016. Culture and Organizations' Department—A Comparative Study. *Marketing i Marketingove issledovania Journal*.
- Dumetz, J., and E. Gáboríková. 2016. The Czech and the Slovak Republics: A Cross-Cultural Comparison. *Marketing Science & Inspirations* 11 (4): 2–13.
- Dumetz, J., O. Saginova, P. Woolliams, D. Foster, R.M. Belbin, F. Trompenaars, and C. Hampden-Turner. 2012. *Cross-Cultural Management Textbook: Lessons from the World Leading Experts in Cross-Cultural Management*. Luxemburg: CreateSpace.
- Englund, T. 2004. *The Czechs in a Nutshell*. Basset.

- EUCham. 2015. <http://eucham.eu/charts/153-2015-03-foreign-direct-investment-per-capita-in-europe>. Accessed 10 June 2017.
- EUR-Lex. 2007. The 2004 Enlargement: The Challenge of a 25-Member EU. [Online]. Available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3Ae50017>. Accessed 01 May 2017.
- European Commission. n.d. European Neighbourhood Policy and Enlargement Negotiations. Conditions for Membership. [Online]. Available at: [https://ec.europa.eu/neighbourhood-enlargement/policy/conditions-membership\\_en](https://ec.europa.eu/neighbourhood-enlargement/policy/conditions-membership_en). Accessed 01 May 2017.
- European Commission. n.d. Schengen Area. [Online]. Available at: [http://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/schengen\\_en](http://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/schengen_en). Accessed 06 Mar 2017.
- European Commission. n.d. Strategy by Topic. [Online]. Available at: [https://ec.europa.eu/info/strategy\\_en](https://ec.europa.eu/info/strategy_en). Accessed 05 May 2017.
- European Mortgage Federation. 2012. <http://www.hypo.org/Content/default.asp?PageID=414>. Accessed 10 June 2017.
- Foster, D. 2000. *The Global Etiquette Guide to Europe*. Hoboken: Wiley.
- Furian. n.d. Royalty-Free Stock Photos, Depositphotos. [Online]. Available at: <https://cz.depositphotos.com/65470141/stock-illustration-czech-republic-political-map.html>. Accessed 01 June 2017.
- GlobalEconomy.com. 2017. Czech Republic: Corruption Perceptions. [Online]. Available at: [http://www.theglobaleconomy.com/Czech-Republic/transparency\\_corruption/](http://www.theglobaleconomy.com/Czech-Republic/transparency_corruption/). Accessed 06 May 2017.
- Global Index of Religiosity and Atheism, Gallup. 2012.
- Hall, E.T. 1973. *The Silent Language*. New York City: Anchor.
- Hampden-Turner, Trompenaars. 2016. Seven Dimensions Profile of Czech Republic and Slovak Republic, Provided to the Author by THT Consulting.
- Hirsch, V., P. Pavlínek, and Z. Kukul. 2016. Czechia: The Myths and Facts About the Short English Name of the Czech Republic. [Online]. Available at: <http://www.go-czechia.com/>. Accessed 01 June 2017.
- Hofstede, G. 2002. Dimensions Do Not Exist: A Reply to Brendan McSweeney. *Human Relations* 55 (II): 2–7.
- Hofstede. 2017. Website: <http://geert-hofstede.com/czech-republic.html>.
- House, R.J., P.J. Hanges, M. Javidan, P.W. Dorfman, and V. Gupta (eds.). 2004. *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*. Thousand Oaks: Sage.
- Kábelová, A. 2010. Politický Systém České Republiky. [Online]. Available at: <http://www.czech.cz/cz/88070-politicky-system-ceske-republiky>. Accessed 24 Apr 2017.

- Kluckhohn, F.R., and F.L. Strodtbeck. 1961. Variations in value orientations.
- Kolman, L., G. Hofstede, N.G. Noorderhaven, and E. Dienes. 1999. Work-Related Values and Cooperation in Europe. In *Konference PEF CZU, Agrární perspektivy*, VIII, 884–890.
- McSweeney, B. 2002. The Essentials of Scholarship: A Reply to Geert Hofstede. *Human Relations* 55 (II): 1363–1372.
- Observatory of Economic Complexity. 2017. <http://atlas.media.mit.edu/en/profile/country/cze/>. Accessed 10 June 2017.
- OECD. n.d. Civic Engagement. [Online]. Available at: <http://www.oecdbetterlifeindex.org/topics/civic-engagement/>. Accessed 06 Apr 2017.
- Religiosity Highest in World's Poorest Nations, Gallup. 2009.
- Rotter, J.B. 1966. Generalized Expectancies of Internal Versus External Control of Reinforcements. *Psychological Monographs* 80: 609.
- Santander. 2017. Czech Republic: Political and Economic Outline. [Online]. Available at: <https://en.portal.santandertrade.com/analyse-markets/czech-republic/economic-political-outline>. Accessed 06 Apr 2017.
- Shafik, N. 1995. Making a Market: Mass Privatization in the Czech and Slovak Republics. *World Development* 23 (7): 1143–1156.
- TMC Cultural Navigator. 2015. *Czech Profile*.
- Transnational Management Associates (TMA). 2015. Country Navigator Cultural Profile. Czech.
- Transparency International Index. 2015.
- Trompenaars, F. 1993. *Riding the Waves of Culture: Understanding Cultural Diversity in Global Business*, 1st ed. Chicago, IL: Irwin Professional Publishing.
- Values Surveys EVS/WVS Waves 1–4 (1981–2004).
- World Bank Group. 2017. Trading Across Borders. [Online]. Available at: <http://www.doingbusiness.org/data/ExploreTopics/trading-across-borders>. Accessed 01 June 2016.
- World Bank. n.d. Doing Business. Czech Republic. Overall Ranking. [Online]. Available at: <http://www.doingbusiness.org/data/exploreconomies/czech-republic#paying-taxes>. Accessed 06 Apr 2017.
- World Economic Forum. 2016. The Global Competitiveness Report 2016–2017. [Online]. Available at: <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>. Accessed 27 Apr 2017.

# Conclusions

What is the center and what is the periphery? For many years, the slightly uncivilized periphery of Europe was considered to be Ireland, the distant Celtic fringe. For just as long, Russia with its agricultural society built on the serfdom and linked to Asia was perceived as the limit to Europe.

For this book's purposes, we have been closer to the second approach than to the first. After all, Ireland is now a thriving member of the community of European nations. To be more precise, we see modern Europe as springing from the original group of six nations which signed the Treaty of Rome in 1953 and laid the groundwork for the European Union. So, by definition, our book deals with those nations which surround the original six—France, Italy, the Netherlands, Luxembourg, Belgium, and Germany. However, Germany is in both groups. As the dynamo of Europe, this country brings together the core nations and—situated as it is in Central Europe—also the periphery.

This European periphery has taken on importance economically and politically as Germany and Scandinavia have become powerhouses and as the former Soviet nations have grown. Again, there are exceptions: Ukraine and Russia. Sandwiched as it is between the European Union and Russia, Ukraine is torn historically, politically, and economically

between the two. Russia, a nation and a culture apart, crouches as it always has on Europe's borders and—again as it always has—snares bits of territory whenever it can.

So, what have we learned from our visit to Europe's periphery? First, there is a wide variety of cultures and languages. Second, there is a cultural fault line along the Russian border. Finland, one of the least corrupt and democratic countries anywhere, shares a long common border with Russia, a country with a long tradition of strongman rule. This fault line flares into open warfare along the Ukraine–Russia border. Again, the underlying issue is culture even though Russia itself was born in Kiev (the “Rus”).

Third, we have learned that the ease of doing business in the periphery of Europe varies from the relatively simple in Scandinavia and Estonia to a veritable diplomatic duet in Russia and—to a lesser degree—in Ukraine. Thus, the businessman going to Eastern Europe would be well advised to learn about the culture of the country where he/she will be working before going there and to have a mentor once there.

Finally, we have learned that despite its many flaws and shortcomings, the European Union is the force which holds much of the region together and provides a structure for both business and democracy. Naturally, the greatest threat to security and thus to the European Union is Russia. With its culture based on the power and power based on the acquisition of land, Russia will always be a threat to its neighbors.

So, we might ask, Why has Northern Europe succeeded so brilliantly from all perspectives despite its relative lack of natural resources while Russia has failed from all perspectives except military despite its wealth of the natural resources? The answer is simply culture. What is in our minds determines our success or lack of it much more than external circumstances.

Robert A. Crane

# Index

## C

Central Europe 119, 198  
Change management 41, 48  
Cross-cultural 53, 182, 183, 188,  
189, 207, 209, 211

## D

Democracy 1, 15, 35, 50, 121, 123,  
124, 132, 135, 139, 143, 161,  
184, 198, 201

## E

Eastern Europe 108, 115, 162  
European Union 42, 47, 50, 54, 81,  
128, 156, 163, 198, 201

## H

High-tech 154

## M

Management 4, 5, 13, 24, 25, 28,  
30–32, 34, 36–38, 48, 51, 52,  
54, 56, 57, 60, 61, 69–74,  
77–84, 86–92, 94–105, 110,  
111, 124, 180, 182, 188,  
209–211

## N

Nation building 122, 155  
NATO 19, 20, 42, 151, 164, 170,  
201

P

Privatization 47, 202, 204  
Protestant work ethic 17, 52

R

Russian Orthodox Church 138

S

Scandinavia 1, 5, 7, 8, 11, 17, 26–30,  
32, 33, 36, 38, 93  
Social transience 42, 46, 50  
Soviet 42–44, 46–52, 54, 55, 57,  
72, 79, 99, 117, 119–123,  
125–130, 132, 138, 149–153,  
155, 156, 158, 161, 164, 166,  
168–173, 175, 176, 178–180,  
182, 187, 194, 200  
Start-Up 52, 53, 55, 59

T

Totalitarianism 43, 51, 55  
Transition economy 47

U

Unlearning 48

V

Vikings 11, 138  
Visegrad 201