STROI-network - BUSINESS NETWORKS IN RUSSIA
FINAL REPORT 2009

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STROI-NETWORK
- BUSINESS NETWORKS IN RUSSIA
FINAL REPORT 2009
PART 1: BUSINESS SUMMARY

23.2.2010

Finland
HAMK: Niittymäki Seppo, Tenhunen Lauri and Weck Marina
TUT: Lod Timo, Niittymäki Seppo and Tolonen Teuvo
VTT: Kähkönen Kalle, Nippala Eero, Perälä Anna-Leena and Riihimäki Markku

Russia
GSOM: Minina Vera, Dmitrienko Elena and Krupskaya Anastasia
HSE: Filinov Nikolay, Tretyak Olga, Settles Alex, Bek Nadejda,
Buzulukova Ekaterina, Popov Nikita, Rozhkov Alexander and Vladimirova Nina
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Abstract

HAMK University of Applied Sciences, Tampere University of Technology and VTT Technical Research Centre of Finland are carrying out a common research project STROI Network together with Russian universities. The Russian universities are State University Higher School of Economics from Moscow and State University Graduate School of Management from St Petersburg.

The objective of the project is to find out present management and leadership models suitable for Finnish construction companies and related services networking in Russian market environment. Research work is divided into two main phases:

1. Management and leadership models and performance measurement indicators applied at present in business networked companies and organizations (during 2008) in Finland. Work has been concentrating more on management tools than leadership issues.
2. Developing applicable management and leadership models and performance measurement indicators for Finnish companies and business networks operating in Russia (during 2009). Developing management tools should not be the only issues, as in Russia leadership activities have more emphasis than in Finland.

Foremost, research is based on qualitative analysis and constructive approach. Interviews have been carried out in Finland and in Russia by Finnish and Russian researchers. The empirical results have been analyzed and introduced at several international research conferences and seminars.

The results indicate that management and leadership models and performance measurement indicators should be adjusted not only according to product and business sectors, but also according to the Russian business culture. Finnish companies seem to have extreme difficulties to apply matrix type organizations in the Russian context, as Russian management practices are based traditionally on strong and authoritarian leadership. However, clear and specified targets should be set for business units or lines in the strategic management of networked company. Targets should be documented and agreed upon with managers and staff of the company and business network. Also, scenarios and requirements of development of business environment should be followed up and documented in order to react fast, if real development is not in parallel with the selected scenario. Recommended performance measurement indicators will be introduced in this report.

Project reports are divided in two parts:

1. Business summary representing the final results (This report).
2. Academic articles of Finnish and Russian researchers including literature review, research methods, results and findings on the basis of experience and interviews as well as discussion.

Reports and Power Point presentations for each perspective are available from the project web-site www.hamk.fi/stroi.

Results are based on approximately 200 face-to-face interviews and survey questionnaires.
**Foreword and Introduction**

**Background Information**

HAMK University of Applied Sciences, Tampere University of Technology and VTT Technical Research Centre of Finland are carrying out a common research project STROI Network together with Russian universities. The Russian universities are State University Higher School of Economic from Moscow and State University Graduate School of Management from St Petersburg.

Research is funded by TEKES, participating companies, and Finnish as well as Russian research institutions are involved.

Co-operation companies and member of management group are shown in Figure 1. Dr. Olli Niemi acted as a chair of the management group. Research organizations and researchers are listed below.

<table>
<thead>
<tr>
<th>Co-operation companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HAMK:</strong></td>
</tr>
<tr>
<td>Contact person</td>
</tr>
<tr>
<td>Mika Räty</td>
</tr>
<tr>
<td>Matti Mikkola</td>
</tr>
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<td>Pertti Tammivuori</td>
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<td>Hannu Markkanen</td>
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<tr>
<td>Markku Lundström</td>
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<tr>
<td>Jouni Haajanen</td>
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<tr>
<td><strong>TUT</strong></td>
</tr>
<tr>
<td>Olli Niemi</td>
</tr>
<tr>
<td>Arvo Ianes / Timo Laapio</td>
</tr>
<tr>
<td>Jukka Pekkanen/Jani Kemppainen</td>
</tr>
<tr>
<td><strong>VTT</strong></td>
</tr>
<tr>
<td>Matti Mikkola / Janne Manninen</td>
</tr>
<tr>
<td>Peter Nordgren</td>
</tr>
<tr>
<td>Heikki Suhonen</td>
</tr>
<tr>
<td>Esa Kosonen</td>
</tr>
</tbody>
</table>

**Motivation, objectives and contents**

The basic motivation for the ST ROI Network is given by the fact that trade between Russia and Finland has been increasing during the last few years and Russia has been one of the largest cooperation partners for Finland for decades. In addition to trade, there are investments to both countries and companies working simultaneously in Finland and in Russia. On the other hand, markets become more demanding and new ways of thinking and action models will be needed in order to gain customers’ trust and commitment within business networks.
The objective of STROI Network research project is to develop and modify Finnish management and leadership models fitting the Russian business culture and context. The final aim for companies is moving towards a “fast” strategy or developing strategic agility.

Long-term objectives, perspectives, contents and research institutions of the project STROI Network are presented in Figure 2 and Figure 3. Research organization and researchers are described in Figure 4.

![Long-term objectives for companies and perspectives (P1-P6)](image)

**Figure 2.** Long-term objectives, perspectives, contents and research institutions.
### Researchers, Topics; Expected Results

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Item</th>
<th>Topics; expected results</th>
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</thead>
<tbody>
<tr>
<td>Riihimäki Marku</td>
<td>1.1</td>
<td>Selection of network business sector (P1)</td>
</tr>
<tr>
<td>Nippala Eero</td>
<td></td>
<td>An operation model for business targeting; total demand for building, real estate and environmental business sectors.</td>
</tr>
<tr>
<td>Perälä Anna-Leena</td>
<td></td>
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</tr>
<tr>
<td>Grönfors Tuula</td>
<td></td>
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</tr>
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<td></td>
<td>2.1</td>
<td>Definition of the network vision (P2)</td>
</tr>
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<td>Riihimäki Markku</td>
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<td>Corporate cooperative relations and Vision of Business Network.</td>
</tr>
<tr>
<td>Kähkönen Kalle</td>
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<tr>
<td>Huovila Pekka</td>
<td></td>
<td>Building up a model to produce vision for a business network in Russia.</td>
</tr>
<tr>
<td></td>
<td>3.1</td>
<td>Competence of human resource (P3)</td>
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<tr>
<td>Minina Vesa</td>
<td></td>
<td>Competence of resource in Finnish companies operating in Russia; HRM model applicable in the Russian market. Business profiling tool for human capital and core employee (CE).</td>
</tr>
<tr>
<td>Kuntikainen Anastasia</td>
<td></td>
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<tr>
<td>Dmitrienko Elena</td>
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</tr>
<tr>
<td></td>
<td>4.1</td>
<td>Internal development of the network and culture (P4)</td>
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<tr>
<td>Settles Alex</td>
<td></td>
<td>Learning organizations (LO); Russian and Finnish companies.</td>
</tr>
<tr>
<td>Vladimirina Nina</td>
<td></td>
<td>Strategic process of business networked companies; strategy planning and implementation.</td>
</tr>
<tr>
<td>Bek Nadezda</td>
<td></td>
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<tr>
<td>Filinov Nikolay</td>
<td></td>
<td>Decision making.</td>
</tr>
<tr>
<td></td>
<td>5.1</td>
<td>Customer perspective and marketing (P5)</td>
</tr>
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<td>Weck Marina</td>
<td></td>
<td>Building trust in counterweight to risks; trust building process in Russian business networks.</td>
</tr>
<tr>
<td>Popov Nikolay</td>
<td></td>
<td>A model for supplier relationship management in Russia.</td>
</tr>
<tr>
<td>Buzulukova Evatena</td>
<td></td>
<td>Relationship building in Russian market; management model for network building.</td>
</tr>
<tr>
<td></td>
<td>6.1</td>
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</tr>
<tr>
<td>Nittymäki Seppo</td>
<td></td>
<td>Performance measurement practices; preliminary analysis</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Figure 3. Researchers, Topics and Expected Results.**

### Research organization

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Partners</th>
<th>Prof./Dir.</th>
<th>Researchers</th>
<th>Item</th>
<th>Note</th>
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<tbody>
<tr>
<td>P1 Business Sector</td>
<td>VTT</td>
<td>Pajakkala Pekka Riihimäki Markku</td>
<td>Riihimäki Markku Nippala Eero Perälä Anna-Leena Grönfors Tuula</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>P2 Vision of Network</td>
<td>VTT</td>
<td>Riihimäki Markku Kähkönen Kalle</td>
<td>Riihimäki Markku Perälä Anna-Leena Kähkönen Kalle Huovila Pekka</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>P3 Competence of Human Resource</td>
<td>HAMK GSOM</td>
<td>Nittymäki Seppo Minina Vesa</td>
<td>Nittymäki Seppo Kuntikainen Anastasia Dmitrienko Elena</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>P4 Internal Development</td>
<td>HAMK HSE</td>
<td>Nittymäki/Tenhunen Filinov/Rek Filinov</td>
<td>Settles Alex Vladimirina Nina Filinov Nikolaev</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>P5 Customer Orientation and Marketing</td>
<td>HAMK HSE</td>
<td>Nittymäki Seppo Tretyak Olga</td>
<td>Weck Marina Popov Nikolay Rozhkov Alexander Buzulukova Evatena</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>P6 Measuring Network Performance</td>
<td>TUT HSE</td>
<td>Tolonen Teuvo Lönqvist Antti</td>
<td>Getheva Nadzehda Lod Timo Nittymäki Seppo</td>
<td>6.1</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 4. Research organization and researchers.**
Research approach and methods

Finding a common approach for this research has been extremely difficult: traditionally the Russian approach is quantitative and the Finnish qualitative. We have selected a constructive approach (Figure 5). Both qualitative and quantitative methods were applied.

![Constructive Research Approach](image)

Figure 5. Application of Constructive Research Approach. Item 1) and connection to theories have been introduced in previous stage of this research project: Profiling Business Networks Oriented to Russia (Niittymäki et al. 2007, in total 65 pages).

With constructive research approach, we would like to combine qualitative and quantitative methods with business practices and use triangulation as a common approach (Figure 6)

Triangulation (Denzin 1988) may be achieved in four different forms:
- Multi-method, as qualitative and quantitative methods are used.
- Multi-investigator, as there is 21 researchers from 5 different universities in two different countries.
- Multiple data sets, as there will be about 10 different data sets.
- Also, multiple theory triangulations are possible due to numerous theories in place in different business organizations in Finland and Russia (Figure 6).
During 2009, two different approaches were used in order to achieve multi-method, multi-investigator, multi-data set or multi-theory triangulation was achieved in some perspectives. Triangulation gives extra reliability for the results, but it also required more effort from researchers and companies involved. On the other hand, researchers did learn more and companies received more relevant and reliable information for their future use and decision making.

As Professors Filinov and Settles are stating below, and the project researchers own experience from different cultures suggest, decision making and attitude towards learning organization concept demonstrate considerable differences across national borders. Consequently, we have to expect differences in decision making styles as well as management and leadership approaches between Russian and Finnish managers. These differences have to be identified. It is not sufficient to know that these issues are different: In order to come up with explanations for existing difficulties of Finnish companies in Russia, it is also necessary to understand what exactly is different and to what extent. Therefore also a quantitative approach was applied in two perspectives: P4 Internal development (Defining strategy) and P6 Performance measurement. In P4 Learning, the organization was explored in Finland and Russia and a comparison to USA was carried out. Performance measurement was explored using a web-based survey and with a structured interview for two different groups of companies.
1 Business Sector (P 1) Markku Riihimäki, Eero Nippala, Anna-Leena Perälä and Tuula Grönfors

1.1 Selection of Network Business Sector

The construction industry is very heterogeneous in many countries. The companies vary from small one-man shops to multinational corporations. Construction has a lot of connections e.g. public administration, finance and demand from market. Construction sector is traditionally very manufacturing-oriented and product-oriented line of industry. In recent years, the orientation has been shifting more towards customers and services.

Companies should constantly analyze the market. Adjusting to changes in business environment is nowadays a demanding task because, changes are likely to become more rapid and demand a quicker response than before. Needs of market information varies a lot by company. Market analyses should be the more systematic and deeper the more strategic importance and networking situation is. Market analysis will provide information and understanding, which allows redirecting the company or the network’s vision and strategy to the interesting market. Selection of the business or market sector is a continual process, in which actions and understanding grows together with importance. (Figure 7).

Companies’ and networks’ market knowledge, their understanding and vision are connected and grow together. Changes in the market, in technology and competitors’ and customers’ operations have an effect on companies’ decisions and actions. Companies are increasingly utilizing intelligence activities to transform information into actionable knowledge.

![Selection of Business Sector – continual process](image)

Figure 7. Network’s and companies operations model for selection of business sector.
Selection and analyzing of business sector (Figure 7):

1. Accesses to the market (lower left corner)
   - Country level analyses (population, living standard, salary, value and amount of construction and quality of construction, political atmosphere)

2A. Further Analyses of construction branch (upper left corner) (small company)
   - Key customers (who buys and buyer opinions)
   - Distribution channel (competitors distribution channels)
   - Price and terms of delivery

2B. Further Analyses of construction branch (lower right corner) (Network or large company)
   - New companies to the branch
   - Cost competition
   - News review

3. Network action supporting Analyses (upper right corner)
   - Changes of distribution channel and competitors activities
   - Product level demand forecast
   - Continuous follow-up of prices and projects

1.2 Forecast Model

VTT Technical Research Centre of Finland (VTT) has developed a forecast model in order to forecast demand for different building materials and components for about 30 years for the Finnish market. This has been quite a successful activity and is working well in Finland. In Russia, the situation is different. In Finland, the construction industry is well established, while Russia is building a lot of growth potential. There are no similar statistics available in Russia as in Finland and therefore a new approach is needed in order to predict demand in the building sector with a reasonable level of accuracy.

The model will produce demand forecasts for construction sector material use in new buildings. The model also produces basic information on the construction and property market sector’s future service demand. This information will be needed in companies’ strategies, business plans and vision. The numeric model also needs information about the following aspects for example:
   - Political atmosphere
   - Economic situation
   - Demand and competition of different products
   - Decision-making and clients
   - Technology development
   - Environmental atmosphere
   - Social atmosphere.

By combining numeric data and socioeconomic information about the region, companies and business networks will have basic information about total demand for building products in order to create company strategy.

Relevant basic data for the network in construction and service business is GDP. Traditionally the construction output changes are greater than changes in GDP (Figure 8). Most important is to see the GDP’s turning points. In the near past the construction sector has grown the most of all the sectors in the Russian economy, while it is now decreasing. The potential is still enormous. In the e
There is a need to build about 25 million new flats (60m²) in Russia, to achieve the Nordic housing area (22 m²/capita -> 32 m²/capita). There is also a need to renovate and modernize existing residential and non-residential building stock.

Figure 8. GDP and construction in Russia. Source: Goskomstat. It is remarkable Russian construction market is reacting faster to recession than Finnish market.

VTT has developed the VERA forecasting model within the STROI Network project with a constructive approach by utilizing the model developed for the Finnish market. The Finnish model has been modified to fit Russian circumstances. New information items and sources have been found in order to forecast demand in the Moscow and St. Petersburg areas.

This construction and property market forecasting model is based on regional GDP development, salary changes, investments, building construction statistics and changes in inhabitants and other indicators from those regions. In that construction forecast, the model could apply widely to different materials and services in the construction sector.

Together with market size analyses and forecasts, a company or network needs information about market share, competitors, customers, prices, distribution channel and product adaptation and so on.

In order to make optimal choices, decision makers need essential and accurate information and analyses from business.
2 Vision of Network in Future Business Networks (P 2)

2.1 Corporate Cooperative Relations and Vision Process as its Development Tool: Markku Riihimäki and Anna-Leena Perälä

Traditionally, cooperative relations between companies and networks have been evolved and formulated, but the networks can be seen as a strategic resource that can be lead, and which may have common goals and visions. In which Vision is a value-based future status of the network’s will.

Different networks have their own objectives, partners, and an undertaking to play a role. An enterprise’s ability to operate in different networks and the ability to build a network of relationships is a prerequisite for success in the future. Operating in different networks and network management is different. A modern network goes to the traditional authoritarian management more to the collaborative management. The collaborative management works best in quite democratic networks. That emphasized in international market, when the company tries to penetrate a market.

Solid working relationships with the deepest (Figure 9.) form a common approach. Such a network could offer a common, end-product. At the other extreme are open networks that do not have solid working relationships. Open relationships are used, such as, joint learning, sales and marketing cooperation or co-product development. An example of an open network is VTT’s Market Information Network (Figure 10), in which various stakeholders are working together to learn and acquire market information and a new foreign market area.

In Figure 9 presents a variety of network environments.

![Different networks and environments](image_url)

Figure 9. Different networks and environments. Source: Valkokari Katri et al. Tykes report 2009.
Market information network in VTT – Case "Balenna"

Network of information sources, production and subcontractors
- Local statistics
- Technical university
- Federation of Construction Ministries
- etc.

Network of information utilitzers and companies
- Company 1
- Company 2
- Company 3
- Company 4
- etc.

Figure 10. Balenna – Market information network in VTT.

Vision Process

Tightness and the strategic importance of the network leads to the objectives and vision formation in the network. Vision is one effective network management tool. The network’s co-operative development and implementation is a multi-level and long-time process. Strong vision provides the direction on which the network’s enterprises can rely. Vision will be the clear will of the network’s future status.

Vision process is shown in Figure 11.

Figure 11. Vision process. Source: Riihimäki & Vanhatalo 2006.
The vision process should be taken into account companies visions, strategies, as well as other objectives in a single starting point. The starting point is also the network's strengths as well as the various parties' views of common objectives.

Vision process should start early enough. Ideas have to mature sufficiently long time. The views of the parties, development ideas and expectations in favour of should collect in advance. Vision process success are the early-block, leadership, scheduling and share of information. Those are the key factors.

Vision is also choice making, that's why for example the vision process should define customer profiles. In collaborative management the design of vision contributes significantly to more people than the traditional operation. The vision process in this concept needs to be what one company had called a supervisor role the process owner or a director wonders how the vision design is implemented.

One difficult problem for the strategic objectives is to set the goals which should be expressed as we want. There is a question: who are we? Even the company consists of several teams (stakeholders, owners, customers and staff). The same basic problems are in the network development.

The work of a network is characterized by the fact that everyone is associated with the network's co-operation from their own premises. An effective network is needed, so are networking meetings, and an open, transparent and efficient organization of information.

The network realization of the vision should be monitored for the joint management team or the management forum. The goals should be monitored and reviewed regularly. The network management team or forum does not make the actual decisions of occurrences, but signals to the parties the differences in goals and reports the results of the official decision-making.

2.2 Vision Process of Business Network: Kalle Kähkönen and Pekka Huovila

Global internet enabled electronic-commerce, resources and financing opportunities have created new business environment where business networking is essential for all lines of businesses. Business networking should be managed systematically with appropriate methods and tools. Figure 12. presents a practical tool for viewing and communicating the current status of a company's business networks. "Traffic light s" are used to portray the current level of formal and informal relationships regarding the business network in question.
“From traditional business networking towards more agile solutions enabled by new goals and roles” is our leading business network vision for the Russian markets. We are proposing the active use of business network “brokers” as facilitators for various practical operations of such networks (network creation, actions and maintaining). Brokers are (commonly) neutral players that can have a confidential relationship with many parties. They are experts in their field of business but also in communication, group work and decision-making (Figure 13).

Figure 12. Categories of business networks and “traffic lights” for viewing their current status.

Figure 13. Business opportunity broker for finding appropriate partner network, e.g. the bidding consortium or some finance agent.
3 Competence of Human Resource Management (P 3) Vera Minina, Anastasia Krupskaya and Elena Dmitrienko

3.1 Entering Russian Construction Market: Challenges for HRM in Finnish Companies

Cultural Differences and Human Resource Management

To achieve a Finnish company’s goal in the Russian context it is important to reveal cultural differences in Human Resources (HR) and Human Resource Management (HRM). To be successful in new business environment HRM model should be designed with a focus on Core Employees (CE). Their knowledge, skills and abilities become the main source for organisational abilities and competitive advantages. CE profile is provided as the result of the survey.

Risks for foreign market expansion could be reduced by searching cultural features, e.g. the basic values and beliefs of the citizens. Thus, while designing the HRM system, managers have to take into consideration local features of HR.

New Challenges for HRM in Project-based Business

Project-based firms differ from other ones particularly but not exclusively by human resource practices. In project business, employees are inclined to functional mobility, intercompany mobility, combination of roles, additional social competences, such as ability to work in a team, and leadership development.

Team and network formation means that the competitive advantage of the company needs to be achieved through the integration of competencies, skills and technologies. Individual and collective learning requires the right management, this is the only way to build knowledge assets and generate innovation. The employees’ professional competencies ought to be renewed and consist of organisational learning in order to create organisational capabilities for survival in a competitive environment.

To achieve success in managing a business network it is important to have the capabilities for partnership and collaboration. It requires such social skills as an understanding of the social environment, adopting cultural differences, maintaining trust, being tolerant, and high developed communicative skills of personnel. In this case the learning process takes a central place in HRM practices.

Project business presupposes the introduction of the ‘power to the edge’ management philosophy, which focuses on moving power from the center to the edge and achieving control indirectly. A lack of trust in a project might lead to bureaucratic control that decreases the flexibility of the project participants to act.

Four important roles for HRM arise in this new environment. First of all, HR managers should create the culture of openness and development, because of the increasing importance of social mobility and the ability of permanent improvements of staff in project-based firms. Secondly, the new HR manager’s role is to build and maintain trust in the organization for achieving success in project collaboration. Thirdly, HR managers should develop an entrepreneurial style of thinking and doing. And fourthly, the HR manager’s role deals with
development practices such as career development, personal development, cognitive and emotional ability development.

**Project Description, Objectives and Research Methodology**

The purposes of the research:

I. To reveal differences in Russian and Finnish approaches to HRM practices;
II. To design Core Employees Profile;
III. To work out the recommendations concerning HR practices improvement.

Qualitative data have been collected by conducting 17 semi-structured interviews with the senior managers, heads of the departments and HR managers. There were face-to-face interviews 1-hour duration.

**Differences in Russian and Finnish HR and HRM Practices**

The empirical results describe differences in HR, HRM practices and impact of the main incentives (Table 1).

**Table 1. Differences in Russian and Finnish HR and HRM practices.**

<table>
<thead>
<tr>
<th>Features of HR</th>
<th>Russian context</th>
<th>Finnish context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ competences:</td>
<td></td>
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</tr>
<tr>
<td>• Decision-making skills</td>
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<td>High level</td>
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<td>• Willingness to take responsibility in decision-making</td>
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<tr>
<td>Decision-making practices:</td>
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<td>• Long term orientation</td>
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</tr>
<tr>
<td>• Thorough process</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>• Speed of decision-making</td>
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<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• Using working time for private matters</td>
<td>Only deadlines are important</td>
<td>The whole schedule is important</td>
</tr>
<tr>
<td>• Importance of following project schedule</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Features of HRM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruiting practices</td>
<td>similar</td>
<td></td>
</tr>
<tr>
<td>Managing adaptation process</td>
<td>No</td>
<td>Seldom</td>
</tr>
<tr>
<td>• Detailed program of adaptation</td>
<td>Yes</td>
<td>Often</td>
</tr>
<tr>
<td>• Coach support</td>
<td>Seldom</td>
<td>Often</td>
</tr>
<tr>
<td>• Colleagues support</td>
<td>Often</td>
<td>Rarely</td>
</tr>
<tr>
<td>Reward system:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Clarity of parent company reward system</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Training programs</td>
<td>similar</td>
<td></td>
</tr>
<tr>
<td>Employees’ development:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attitude to development discussion</td>
<td>Pressure</td>
<td>Support</td>
</tr>
<tr>
<td>• Development discussion procedure</td>
<td>Assessment</td>
<td></td>
</tr>
</tbody>
</table>

**The main incentives and their impact on employees**

<table>
<thead>
<tr>
<th>Financial</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewording for outstanding performance</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Covering educational fees</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Medical insurance</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Pension programs</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Support in housing loan and credit</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non financial</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Work-life balance policy</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Participating in decision-making process (for some groups of staff)</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Best employee recognition (from time to time)</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
HRM Alternatives for Finnish Companies in Russia

One of the remarkable results is devoted to developing HRM model. There are three approaches to HRM, which Finnish companies can follow in Russia. They may accept local practices, adopt Finnish practices or develop a mixed HRM model.

Core Employees Profile

There is a lack of attention to identification of employees who are responsible for organizational competences. Thus, it is important to focus on people who are involved in core business. We identify those who have the ability to transform unique and value knowledge into organizational competitive advantage as core employees. CEs should be identified according to the required abilities (Figure 14A).

A three-field model is applicable for CE recognition (Figure 14B). There could be three main fields or levels, which influence the growing CE of the company: the social field (all the colleagues and informal groups at workplace); the organizational field (usually management of the company who notice most valuable employees and give them more responsibility and credentials); the professional field (all kinds of different internal specialists and external societies and organizations which consider this person as an expert).

Implementation and Exploitation

All training and development programs can go in two main directions: organizational learning, and competence and skill development. For organizational learning, a very crucial point is to translate the organizational culture: values and basic beliefs, mission, organizational goals and management tools. For competence and skill development of employees the focus should be done on teamwork, sharing knowledge, decision-making, self-determination, goal setting and practical-oriented professional skills.

Conclusions

The very important issues raised in this paper have a cultural context and are challenging for HRM. It is possible to manage these challenges and achieve sustainable advantages by identifying CEs and developing an HRM system with CE orientation.
4 Strategic Process of Finnish Construction Companies Building Networks in Russia (P 4)

4.1 The Evaluation of Perceptions of Finnish and Russian Manager Regarding the Organization Learning Potential of Their Firms: Alex Settles

Culture and Learning Organization Concept

This research tests whether a country level culture affects the readiness and acceptance of learning organization concepts. Based on a series of case studies, interviews, and a survey of 55 Russian and Finnish management students the results indicates that there are differences between Finnish and Russian managers to create an environment for learning, adopt learning organization practices, and develop leadership for organizational learning.

Russian companies face a significant problem of developing the conditions that support a learning organization. In western business, the concept of creating a learning organization has been built on the basis of a long history of organization change that supports learning, knowledge creation and management, and in process re-engineering to improve the quality of the organization’s processes and products and services. As Garvin, Edmondson, and Gino (2008) have recently pointed out that the business leader may think that getting their organizations “to learn is only a matter of articulating a clear vision, giving employees the right incentives, and providing lots of training.” This assumption misses out on the real tools of organizational change required to build learning organizations. This is particularly important in the Russian business environment since the transitional Russian and early Soviet models of organizations do not support the primary conditions of creating a learning organization. Employee training and incentives and the company’s or State’s demands for creating innovative solutions have become very popular in Russian business culture but in itself does not create learning organizations. Western (Finnish) business practices vary significantly from Russian practices and the open learning environment encouraged in western business may come in direct conflict with Russian business practices.

The learning organization in Russian company culture has unique features that are related to the specific Russian practices related to the method of management, responsibility sharing, and limitation of liabilities resulting from action and inaction. The paper examines the strengths and weaknesses of Russian business culture and draws on learning organization theories to identify the particular features of Russian business culture that limits or encourages the creation of a learning organization. A section of the report will examine the culture of decision-making and control mechanisms in Russian company and the need within the Russian business environment to have strong control mechanisms.

Research Methodology

The survey instrument measures nine factors: (1) psychological safety, (2) appreciation of differences, (3) openness to new ideas, (4) time for reflection, (5) information collection, (6) analysis, (7) education and training, (8) information transfer, and (9) leadership. The full questionnaire has been used to survey two groups of managers from Finland and Russia. The respondents work in Moscow or in the Hämeenlinna region in Finland. The managers were attending Master-level programs at a Russian and
Finnish business school so there was selection bias in the sample that may have influenced the final results. The survey respondents are non-representative samples of the population of Finnish and Russian managers.

**Differences between Finnish and Russian Companies**

Culture distance theory (Hofstede 1981) indicates that there would be significant variation in the variables that create a supportive learning environment and leadership that reinforces learning. Russian companies have adopted many management procedures that facilitate concrete learning process so the variation between Russian and Finnish companies may have disappeared though implementation of such policies may remain.

The results of the series of interviews on Finnish companies and their Russian subsidiaries proved only limited results. The interviews conducted in depth with one company indicating that there are differences in approach to learning between Finnish and Russian managers. In the opinion of one survey, respondent Russian managers demonstrate less openness and leadership in the acquisition and collection of new knowledge. The overall approach was to have Russian managers and workers to conform to firm-wide policies and to implement the management and decision making process to integrate the Russian subsidiary into the Finnish company’s management practices. There may be such learning organization or knowledge management programs in the parent Finnish company though these policies are not implemented in Russian subsidiaries. The first priority tends to be to implement management control systems and adherence to Finnish company-wide policies through the replication of company rules and systems in their Russian subsidiaries. Learning organization policies can wait.

The survey results of Russian and Finnish managers indicate that there are some significant differences. In comparison with the scaled scores of the Garvin, et al. (2008) study both Finnish and Russian managers scored lower than US managers in the development of a learning organization framework in their respective companies. Figure 15 graphically demonstrates the survey results on the nine factors. The Finnish respondents rated their firms as higher in the learning environment indicators of Psychological Safety and Openness to New Ideas while also rating their firm’s practices higher in Information Collection, Analysis, Education and Training, and Information Transfer. Finns also reported higher Leadership that reinforces learning ratings of their managers than the Russian respondents. The Russian respondents scored their firms higher in the learning environment indicator of Appreciation of Differences. Both Finns and Russians reported little time for Time for Reflection and the level reported was nearly the same as reported in the US indicating that most firms do not make time available for reflection. This remains a key weakness in the development of learning organizations.
Conclusions

While it is clear that in some manner learning organization readiness and practices differ between Finnish and Russian companies this research cannot be seen as conclusive. The next steps in the research process would be to conduct a broader survey to include perhaps all member companies of the ST ORI-Network or a representative sample of Russian and Finnish managers. In addition, the next steps in the research process should be to understand what learning organization activities are underway in Finnish companies operating in Russia. Without learning and knowledge, management subsidiaries of Finnish companies operating in Russia will not be able to supply the necessary in-country experience to build company level competitive advantages.
4.2 International Expansion Strategy and Strategic Control: Nadezda Bek and Nina Vladimirova

Internationalization of Companies

Globalization and growing competition force companies to look for new markets for their business. International operations give companies an opportunity to use their resources more efficiently and simultaneously the internationalization processes increase firm’s risks and strategic problems. The choice of an international strategy defines a company’s priorities on partnership development, which are necessary for understanding new market’s features quicker, and for decreasing strategic and commercial business risks. The strategic process is influenced by a number of factors, such as institutional and socio-political, and business-sector specifics and national culture. Strategy development and implementation together with stable network relations define company’s success in a new market. The paper presents the main results of an empirical research, devoted to the analyses of international companies’ strategies and factors, affecting strategic choice and implementation process in the Russian market.

In this research, we have investigated a defined group of factors, influencing network-level strategy and doing business outside the national market. Also, we have tested forms of strategic control used in international companies for management, their subsidiaries and factors, influencing a choice of forms.

Research Methodology

The research is based on qualitative and quantitative data analysis methods. Qualitative tools included structured interviews with top and middle management, based on list of 40 questions covering various aspects of companies’ activities. Internal documents of companies and secondary information (company websites, WEF and WB materials) were used as addition to interview results.

Type of Strategy for Internationalization

The majority of the investigated companies adhere to a multinational strategy. Regionally adapted products are the main characteristic for this type of strategy. The type of business, Russian legislation, and business practice support the choice of the given strategy. However, general quality assurance and following of shared standards are complicated because of the high degree of decentralisation of decisions. It is difficult to copy initial partnership models in a new national market due to various influences on the companies by industries’ actors.

According to the parent company strategy, several businesses can enter the same market. It influences network structure. The researched companies have confirmed that if there is another affiliated company in the same market, it will be in most cases chosen for projects development. The research has shown that companies use typical legal organization forms of development on the Russian market. Some companies buy active businesses. However, the majority of the companies created new affiliated firms for business operations in Russia. Such organizational form as an acquisition was not examined in the considered companies. Though this form could be the most suitable to form a partnership.
On the one hand, there are already established relations with suppliers, consumers and third parties, and on the other, introduction of new rules and procedures from the parent company allows implementing global international strategy.

**Distinctions in Environment between Finland and Russia**

It is possible to define, first, distinctions in the institutional and social environment in Finland and Russia among a group of factors influencing strategy choice of partnership. The economy of Russia and Finland differs in many parameters (Figure 16). Rules of the game within the market in many cases are defined by existing institutional mechanisms along with the level of economic relations development. It is possible to make a conclusion that the most significant parameters of doing business in Russia and Finland differ. According to the World Bank and IFC, Finland is in 14th place in the rating "Doing Business" (https://russian.doingbusiness.org), while Russia is 120th. It is much easier to get permission to start business in Finland than in Russia (43 place against 180). International trade possibilities in Russia are strongly limited in comparison with Finland (4 and 161 place respectively).

![Figure 16. Macro factors in Finland and Russia.](image)

Distinctions in economic values involve differences in a partner’s behaviour in the market. Finnish companies are at a greater degree focused on the business mutual relations based on trust without drawing up detailed contracts at the beginning of joint activity. Russian firms aspire to the maximum detailed elaboration of possible parameters and regulation of joint activity before a project begins. Probably, it is consequences of negative experience of cooperation at the original stage of market development in Russia. All investigated companies stated that they put an essential accent on relations with governance, developing partnership strategy. A high level of corruption and economic crime, especially in the construction sector, cramps the development of normal partner relations. This aspect is represented in much foreign and domestic research and was marked by respondents. The prevalence of shadow operations to a great extent is caused by parameters of national culture of the country. As Latov and Latova (2007) have shown, prevalence of...
corruption relations positively depends on an individualism index and negative on power distance index.

Business specifics influence development of partner relations and business dealing outside of the national market along with socio-cultural and institutional contextual factors. The investigated companies operate in construction sector. They can be divided to four market segments, proceeding from features of the business: industrial and ecological services, lifting equipment, construction materials retail and residential construction.

We have defined the key factors influencing the companies, operating on these markets, using expert estimations added with materials from the DATAMonitor group. The diagram reflects key differences of segments within the limits of the construction sector (Figure 17).

![Figure 17. Competitive profile of the market segments within construction industry.](image-url)

**Alliances of Companies**

There is a common feature for the construction sector – business processes management within different projects. Alliances of companies in the construction sector have more likely a short-term character and change depending on a number of simultaneously realized projects and stage of the concrete project. Developing the project companies are limited by the project purposes, its resources and interests of their stakeholders. The system of tenders regulates various aspects of agreements between partners. Within the limits of one project, not only partners from current network can be involved, but also time-basis participants. A process of interaction between participants can be divided into two stages: project development and realization. The choice of participants in a certain project, including partners from the existing network, occurs at the first stage. And it is extremely difficult to change the structure of
participants in the project in the second stage. Not all patri cians need to be involved in solving problems of the specific project even if there are stable relations between them.

**Form of Strategic Control**

Analysis of forms and mechanisms of strategic control indicates that the observed companies do not use such forms as Financial holding or Operator. Corporate centers of the companies act in line with models Strategic architect and Strategic controller. Interestingly, almost all the companies show the presence of mixed form of strategic control, which includes features of both models.

Major features of strategic processes in Finnish development industry companies, active at Russian market, can be highlighted, based on the research results (Figure 18).

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International strategy</strong></td>
<td>Multinational</td>
<td>Multinational</td>
<td>Multinational</td>
<td>Global</td>
</tr>
<tr>
<td><strong>Form of strategic control</strong></td>
<td>Strategic Controller</td>
<td>Strategic Architect</td>
<td>Strategic Controller</td>
<td>Strategic Controller</td>
</tr>
<tr>
<td><strong>Partners relations</strong></td>
<td>GR and relations with subcontractors</td>
<td>GR and consumers</td>
<td>Joint projects, customers’ development</td>
<td>With suppliers</td>
</tr>
</tbody>
</table>

Figure 18. Characteristics of the companies’ strategic process.

**Network in Russia**

During the research a critical external factor, affecting the partnership building tendencies, was found. Analysis of strategic context has shown that the Russian market provides the mix of great opportunities and great sufficient risks. That is why it is crucial to establish strong relations with local government structures, subcontractors and corporate clients at the stage of Russian market penetration. These ideas were supported by interview results. These companies named consumers, suppliers and subcontractors among potential network participants. However, we consider several other actors to be important: research centers, major influential non-profit organizations. Many respondents emphasized their parent companies as the network members. Its influence on the network position of subsidiaries contains access to financial resources and corporate brand.

Analysis of companies’ strategic processes has revealed that decisions about network relations had tactical character and were not align with corporate strategies of parent companies.

The Finnish companies are focused mostly on dual relations but are not ready to develop network. Some companies aspire to being a part of clients’ processes, developing their own business. But in most cases, such claims are not considered in corporate company strategy.
4.3 Decision-making: Nikolay Filinov

Differences between Finnish and Russian Companies

One of the substantial elements creating difficulties for Finnish companies when entering Russian markets and establishing partnerships with Russian authorities, suppliers, consumers and etc. (i.e. networking) is the difference in approaches to decision-making (DM) in Finland and Russia.

Differences in dominant DM styles influence the applicability and effectiveness of managerial procedures along with the differences in the economic situation, technical infrastructure and social environment. Selecting DM specific features as a focus is however justified for at least two reasons. First, differences in social, technical and economic environment, in which Finnish company operates in its domestic market and in Russia, are relevant for our analysis to the extent, to which they affect the operations and through the decisions, taken by the Finnish company and its Russian counterpart. So, dominant DM style and patterns mediate the influence of all other factors. Second, DM is perceived as a highly personal act. Consequently, if a manager feels uncomfortable with the way it is carried on, his/her effects mutual trust, creates stress and tensions and thus inhibits the process of DM and deteriorates the quality of decisions selected in the most direct way.

Management and Decision-making

This approach involves, however, differentiating between characteristics (style) of management and characteristics (style) of decision-making. If we go into further details, it takes us to a much broader and more sophisticated problem of the contents of management functions. It appears evident that decision-making is only one of them, and consequently style of management and style of decision-making relate to each other as part and whole. Style of decision-making should be regarded as an element of management style in line with such other elements as for example communication style. Moreover, all these are highly dependent and may cause problems if there is an insufficient fit among them. In spite of this, in numerous publications on decision-making style and management style are sometimes used interchangeably, or decision-making style as that of especially important and especially explicit function is regarded as a proxy for style of management. A manager’s DM style is not necessarily equivalent to style of management as far as it pertains to only one (although important) side of manager’s activity.

The literature and authors' own research suggest that DM features demonstrate considerable differences across national borders. Consequently, we have to expect differences in dominant DM styles between Russian and Finnish managers. These differences have to be identified as it is not sufficient to know that they are different: In order to come up with explanations for existing difficulties of Finnish companies in Russia, it is necessary to understand what exactly is different and to what extent.

Conclusions

Results obtained through the pilot interviews with a number of employees in the case company are mixed. On the one hand, questions proved to be understandable for managers. On the other, the interview was found too time-consuming. In interviews held so far creative impressions that the level of subordinates’ involvement in DM at a company is moderate. A few cases show
the level of employee participation less than recommended by normative theories. Development of employees' potential through the involvement in DM process is not regarded as a priority. But all these conclusions need to be retested on a wider database. It was very disappointing to know that one company did not agree to work with quantitative tools and thus we are limited in our use of research instruments.
5  Customer Perspective and Marketing (P 5)

5.1  Developing Marketing for the Network: Olga Tretyak, Ekaterina Buzulukova, Alexander Rozhkov and Nikita Popov

In summer 2008, the Russian construction sector bubble has been suspended. Simultaneous decrease of demand on industrial property and shrinking supply of finance forced construction companies, home ware retailers, as well as their suppliers to seek for help from the official powers. Some of the companies went out of business or started mass layoffs and froze their ambitious projects; others had to make concessions to customers. As time passed, the market power of construction companies declined, and a need to consider customers’ wants was being acknowledged more and more. Still, the market players – large construction firms and developers – dominated the market at least since 2001. What should they do to become customer-oriented companies, and to introduce customer orientation philosophy to their supplier networks?

The proposed framework for approaching a market-oriented interfirm network (Figure 19) includes three pillars: knowledge sharing, joint planning and established control structures. It is composed of two levels: “Routines and processes” and “Systems and structures”. Also is proposed a method for evaluating the extent of customer orientation. It is based on the idea that any business organization has three important goals: creating business value for all stakeholders, sustaining and developing competitive ad vantage and coping with uncertainty. It is very important whether the company is reactively or proactively oriented towards the market. This kind of orientation defines the way how external information is collected and handled, so it is assumed that proactive approach corresponds to higher levels of customer orientation.

With this approach in mind, several relationship marketing issues were studied:

- Customer relationship management
- Purchasing practices,
- Strategies of foreign market entry
Main objectives of the customer relations study were:
1. To identify levels of customer orientation and ways of customer value creation;
2. To identify main stages of customer relations development, as well as issues emerging at each stage;
3. To identify most frequent tools and practices used for CRM.

Purchasing study aimed at:
1. Investigating how purchasing management in a chain of firms evolves when certain changes in demand occur;
2. Identifying purchasing practices which are present at different levels of network-level market orientation.

Network development facet study was devoted to describing relationship development process of Finnish companies on the Russian market. Its aims were:
1. To examine different types of market entry strategies and difficulties in strengthening relationships with the local partners;
2. To reveal common market difficulties and special company's problems;
3. To underline the key role of relationship marketing in customer satisfaction that can increase profitability.

In order to accomplish all these tasks different Finnish companies working on the Russian market were investigated.

Ten main findings of this study are presented in the following list and illuminated in several pictures (Figure 20, Figure 21, Figure 22 and Figure 23).

1. Investigated companies exhibit a relatively low level of customer orientation, and do not measure customer satisfaction;
2. Investigated companies exhibit relatively low level of CRM tools and policies usage;
3. When securing a customer a company’s commitment becomes possible, companies do not pay due attention to it;
4. Customer companies pass through relationship stages individually, and success in reaching commitment stage mainly depends on particular manager's knowledge and experience;
5. Companies have developed systems to evaluate performance of suppliers and the products supplied, but not of supplier relationships;
6. Some firms are buying from suppliers which disregard final customers’ needs and have poor purchasing capabilities, and this prevents these firms’ ability to translate its own customer knowledge into tailored value propositions;
7. Successful implementation of three types of market entry strategies can be observed;
8. As perceived by firms, trust, honesty, willingness to conduct open dialog, readiness to adapt and great wish to work account for relationship stability (over and above economic returns);
9. Main difficulties of companies are macro environmental factors (such as bribes, obsolete standards, changing legislation);
10. While many firms maintain strong relations with their suppliers (often also Finnish firms), few firms develop strong customer relationships.
Different entry strategies to Russian market are employed by Finnish companies

![Diagram showing different entry strategies]

Figure 20. Market entry strategies.

Relationship stability drivers

![Diagram showing relationship stability drivers]

Figure 21. Relationship stability drivers.
Groups of Russian market difficulties

While companies maintain strong relationships with suppliers, strong customer relationships are not pursued

While companies maintain strong relationships with suppliers, strong customer relationships are not pursued

Russian Market Difficulties

Extending ‘global’ relationships with suppliers to the Russian market is a must
Market information sharing with trusted suppliers is extensive
Evaluation of supplier performance is in place

Maintaining relationships with former customers is, generally, not a priority
Customer satisfaction is not monitored
Level of customer orientation is low
CRM tools and policies are almost absent

Figure 22. Russian market difficulties.

Figure 23. Relationships with customers and suppliers.

The findings call for new management solutions, such as strengthening relationships to retain customers and to secure adaptation from suppliers. This in turn calls for the use of new marketing concepts such as relationship marketing. As far as relationships are concerned, strengthening relationship management capabilities is highly advisable to companies.
As time goes by, companies will certainly establish market-monitoring systems. What is not being measured cannot be managed, and this especially applies to the Russian market. However, measuring is not a thing in itself. Relationship evaluation tools can be used to make this information usable for decision-making, and to supplement informal evaluation, which is currently used.
5.2 Building Trust in Counterweight to Risks Perceived in Finnish-Russian Inter-Organisational Relationships in Construction Business: Marina Weck

Trust in Inter-organisational Relationship

Developing relationships with Russian business partners under the conditions of uncertainty of current market environment, foreign companies are involuntarily exposed to certain risks. These are risks caused by disturbances inside the relationships between partners of business network. Such risks can never be eliminated entirely, but to a large extent as literature suggests, trust plays an important role in counterbalancing them (e.g. Arrow, 1973; Håkansson and Snehota, 2000; Shapiro, 1987; Williamson, 1985; Zucker, 1986). Furthermore, the market institutions and infrastructure in Russia are still underdeveloped and development trends are difficult to predict. It means that foreign companies operating in the Russian market have to rely extensively on trust in forming relationships with local partners, while trust is often considered as a substitute for developed market institutions (e.g. Peng and Heath, 1996). Trust has been repeatedly stressed to be a strong foundation for the inter-organizational relationship development (e.g. Gustafsson et al., 2009; Doney and Cannon, 1997; Morgan and Hunt, 1994).

The research conceptual framework

The general argument is that the cooperation will continue from one stage to another as long as trustor is able to rely on trust in the presence of relationship risks and an increase in trust occurs during interactions. The higher level of subjective trust in inter-organisational relationship provides the trustor with confidence to continue the relationship recognizing that perceived risks may cause short-term losses but not threaten the trustor’s long-term interests. (Figure 24)

Figure 24. The proposed conceptual framework.
Relationship Trust Development Process

The trust-building process between partner organisations goes along with the relationship life cycle. An initial relationship between partner companies in the construction field develops through these defined three stages: exploration, expansion and commitment. In accordance with the process of relationship development, the process of trust-building was divided into following three stages: initiation, growth, and maturity.

The development process of relationship trust (see Figure 25) comprises both formal and informal processes, which take place within all three stages of relationship evolution. The formal process aggregates the following forms of trust: ‘institution-based trust’, ‘calculus-based trust’, and ‘process-based trust’. ‘Process-based trust’ is related to ‘relational trust’ and ‘knowledge-based trust’. By definition, these forms of trust imply firsthand knowledge based on experience. The informal process is only associated with inter-personal trust and comprises the tacit trust forms such as ‘cognition-based trust’, ‘personality-based trust’, and ‘characteristic-based trust’. ‘Institution-based trust’ and ‘personality-based trust’ formation processes lie outside the scope of this research.

Figure 25. Overview of trust forms within the relationship development process
**Identified Risks and Trust Preconditions**

As a result of empirical research, the scope of perceived risks was identified in different stages of inter-organisational relationship development. This risk scope was utilized as a framework for risk assessment conducted by managers from Finnish case companies, where probabilities of occurrence were assigned to the each defined risk outcome and the causative event. The acquired data were analysed within each case company and across seven cases. The scope of identified and prioritized risk outcomes and causative events at the commitment stage of relationships are introduced in the Figure 27. The values represent the average values of total assessments of risk probabilities conducted by all respondents from all seven case companies.

Since inter-organisational relationships develop along different stages, the nature and the probability level of perceived risks varies over time. Subsequently, it was assumed that the manner in which trust is established (i.e. trust preconditions) is also diverse at different relationship stages. The Figure 26 introduces the maturity trust phase in the trust-building process bringing up a range of most significant trust preconditions determined at the commitment stages of inter-organisational relationship.

**MATURITY TRUST PHASE**

![Figure 26. Trust-Building at the Commitment Stage of Relationship Development](image-url)

Figure 26. Trust-Building at the Commitment Stage of Relationship Development
Figure 27. Risks and risk sources in relationships with Russian partners.
6 Performance Measurement & Strategy Implementation (P 6) Seppo Niittymäki

6.1 Special Character of Russian Business Environment

In Russian project business management and leadership models, as well as company performance, measurement indicators should be adjusted to the Russian tradition and business culture. Networked companies seem to have extreme difficulties in applying matrix type organizations in Russia, as Russian management practices are based traditionally on strong and authoritarian leadership. However, clear and specific targets should be set to projects as well as strategic business areas. The targets and bonuses should be agreed with managers and staff throughout the company, and the business network. In Russia, both leadership and personal networks within project stakeholders have more emphasis than in Finland, because in personal relations to authorities’ organizations, for example, are needed at every stage of the construction project. Traditionally strategic planning and strategy implementation may be carried out with numerical models, described below, by setting measurable targets for each dimension. Many issues will affect target setting: results from the previous years, the country in question, and the political, economic, socio logical, technological and environmental situation (P ESTE) and development of these factors in the future.

The Russian situation is more complicated: the political, economic, socio logical, technological and environmental situation is totally different and partly unpredictable. Also, the business culture is totally different: power and responsibility is concentrated to the main director of a company even according to Russian law, tradition supports strong and authoritarian leadership; former acquaintances are highly appreciated as a part of business culture as well as in common life (Figure 28).
6.2 From Balanced Score Card to Network Score Card

Importance of network culture and resources in planning strategy was indicated (Figure 29).

Figure 29. From company Balanced Score Card (BSC) to Network Score Card (NSC).

6.3 A Model for Strategic Planning and Strategy Implementation in Project Business

Planning strategy in project based business depends on various perspectives considered, and expectations about their future development (Figure 30). The most important perspectives are the business sector and country, a successful vision for a company and business network, managing human resources within companies and business networks, internal development and learning within network, keeping up customer orientation and also setting measurable targets within companies and business networks. The implementation of strategy will be possible; if targets are set and agreed upon in a way that everybody will understand their objectives and responsibilities within project business.
6.4 Performance Measurement in Business Networks in Russia and Finland

Performance measurement indicators should point towards network common targets of the network in order to implement the change as soon as possible (Figure 31).
The most important 6 factors (PMI, Performance Measuring Indicators) to be measured within project-oriented business networks. In this figure the importance of measuring innovations is underestimated, as a tradition to measure innovation does not exist. At least one performance measurement indicator (PMI) should be selected for the following perspectives: Business sector and Customer, Human Resources, Development, Finance and as well Network confidence and Flexibility.

The most important factors divided according to perspectives P1-P6 to be measured within business networks are the following factors, which should have target values for present and the next two years:

P1: Business Sector,
   1 company reputation

P2: Network Aspects
   2 punctuality of delivery times
   3 number of reclamations
   4 confidence within network
   5 common development and
   6 streamlining activities

P3: Human Resources
   7 staff turnover
   8 work satisfaction

P4: Internal Development
   9 trend of productivity

P5: Customer Orientation
   10 growth of turnover and
   11 order book change
   12 profit of a product

Figure 31. The most important 6 factors (PMI, Performance Measuring Indicators) to be measured within project-oriented business networks. In this figure the importance of measuring innovations is underestimated, as a tradition to measure innovation does not exist. At least one performance measurement indicator (PMI) should be selected for the following perspectives: Business sector and Customer, Human Resources, Development, Finance and as well Network confidence and Flexibility.
These factors have been indicated by triangulation of two different data sets, which were got first by web-robot survey with questionnaire and later on by face to face interviews.

However, the method of application in Finland and Russia should be different. In Russia the position of the main director is different compared to Finland. For the main Russian director there should be adequate resources in order to carry out all duties for Russian authorities and Finnish headquarters. Implementation of applied management systems will imply remarkable training efforts for Finnish and Russian staff members.

Improving staff innovation ability and initiatives will be challenging in Russia, as this has not been appreciated within companies earlier. The starting point for adopting a learning organization concept could be development discussions (appraisals). During aappraisals development and learning targets for different perspectives as well as possible bonuses should be agreed upon.
7 Conclusions and future objectives

Finnish companies and business networks have some difficulties in planning and implementing their strategies in Russia, not only due to present financial crisis. Finnish companies and business networks seem to rely on matrix type organizations. The learning organization is quite well known in Finnish organizations at management level. In Russia, management tradition and practice are different compared to Finland: authoritarian management and leadership style is prevailing; staff development discussions (appraisals) are not well understood and applied.

Clear and specific targets should be set to projects as well as strategic business areas. The targets and bonuses should be agreed with managers and staff throughout the company, and the business network. In Russia, both leadership and personal networks within project stakeholders have more emphasis than in Finland, because personal relations to authorities’ organizations, for example, are needed at every stage of the construction project.

The most important factors to be measured within business networks are the following factors, which should have target values for the next two years:

1 company reputation
2 punctuality of delivery times
3 number of reclamations
4 confidence within network
5 common development and
6 streamlining activities
7 staff turnover
8 work satisfaction
9 trend of productivity
10 growth of turnover and
11 order book change
12 profit of a product
13 return on capital employed
14 profit

However, the method of application in Finland and Russia should be different. In Russia the position of the general director is different compared to Finland. For the main Russian director there should be adequate resources in order to carry out all duties for Russian authorities and Finnish headquarters. An implementation of applied management systems will imply remarkable training efforts for Finnish and Russian staff members.

Improving staff innovation ability and initiatives will be challenging in Russia, as this has not been appreciated within companies earlier. The starting point for adopting a learning organization concept could be in development discussions (i.e. appraisals). During appraisals development and learning targets as well as possible bonuses should be agreed upon.
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BUSINESS NETWORKS IN RUSSIA
FINAL REPORT 2009
PART 2: ACADEMIC ARTICLES

Finland
HAMK: Niittymäki Seppo, Tenhunen Lauri and Weck Marina
TUT: Lod Timo, Niittymäki Seppo and Tolonen Teuvo
VTT: Kähkönen Kalle, Nippala Eero, Perälä Anna-Leena and Riihimäki Markku

Russia
GSOM: Minina Vera, Dmitrienko Elena and Krupskaja Anastasia
HSE: Filinov Nikolay, Tretyak Olga, Settles Alex, Bek Nadejda, Buzulkova Ekaterina, Popov Nikita, Rozhkov Alexander and Vladimirova Nina
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1. Selection of network business sector (P1)

1.1 Selection of network business sector (Riihimäki, Nippala, Perälä)

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ABSTRACT

Finnish construction sector companies are interested in Russian increasing construction and service markets. Companies and clients act in different ways like in Finland. More cooperation between companies is needed in the future. Strategic management and business networking is relative new in Russia. Creating a strategic network is prerequisite for the successful business. Objective of Stroi-network is to develop management and leadership models for Finnish – Russian business networks operating in Russia.

Companies with their strategic networks need market information and vision. Market analyses should be the more systematic and deeper the more strategic importance and networking situation is. Market analysis will provide information and understanding, which allows to redirect the company or the network’s vision and strategy to the interesting market.

VTT is preparing a presume model for a total demand of the markets for different kind end products of building, real estate and environmental sector in Russia, primarily targets for St. Petersburg and Moscow regions. Research objects or business sectors are new regional building (residential and business), wooden products and service business (life cycle services and maintenance, services during construction). Result of this part is forecast model for a total demand of the products.

INTRODUCTION

Trade and business between Finland and Russia are growing and changing. Finnish construction sector companies are interested in increasing construction and service markets with Russia. Companies and clients act in different ways in Russia than in Finland, while more cooperation and market understanding are needed in the future.

Business networks need better understanding about drivers and trend knowledge of different perspectives of construction in Russia. The project prepared a presume model for total demand of the markets for different kinds of products from the building, real estate and environmental sectors in Russia, primarily targeting the St. Petersburg and Moscow regions.

The result was a forecast model for total demand of the products, which were targets for the research. A working model was created for defining the product range and realisation network for companies operating with building, real estate and environmental sectors. The model helps to receive the marketing situation information for the conclusion base from customers and network.
LITERATURE REVIEW

Industry description

The companies and organizations of construction sector needs information about their own business sector statistics etc. There are often problem that information between different sources are not comparable. For example the description of construction industry and precise activities which belong to the construction can vary. In some countries planning sector belongs to construction but not in Finland. The analysts of statistics have to know at least rough level this kind of differences between construction statistics.

Narrow definition of construction sector

Construction sector can be defined in statistics according to standard industrial classification (TOL 2008). The Finnish SIC 2008 (TOL 2008) is based on EU’s NACE Rev.2 SIC (EU regulation number 1893/2006). SIC 2008 classification is in 1–4 number levels similar to NACE Rev.2, but 5-number level is national. (Statistics Finland, 2010)

A-X: Whole economy
BCDE: Manufacturing
A: Agriculture, forestry and fishing (01-03)
B: Mining and quarrying (05-09)
C: Manufacturing (10-33)
D: Electricity, gas, steam and air conditioning supply (35)
E: Water supply; sewerage, waste management and remediation activities (36-39)

F: Construction (41-43)
G: Wholesale and retail trade; repair of motor vehicles and motorcycles (45-47)
H: Transportation and storage (49-53)
I: Accommodation and food service activities (55-56)
J: Information and communication (58-63)
K: Financial intermediation (64-66)
L: Real estate activities (68)
M: Professional, scientific and technical activities (69-75)
N: Administrative and support service activities (77-82)
OPQ: Public sector
O: Public administration and defence services; compulsory social security services (84)
P: Education (85)
Q: Human health and social work activities (86-88)
R: Arts, entertainment and recreation (90-93)
S: Other service activities (94-96)
T: Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use (97-98)
U: Activities of extraterritorial organisations and bodies (99)
X: Industry unknown (00) (Statistics Finland, 2010)

Construction in statistics – classification

Construction has in statistics its own industrial statistics category F Construction, which has been divided in Finnish SIC 2008, (41) new building construction, (42) civil engineering and (43) specialized construction. (Vainio & Grönfors, 2009)

Construction can be new building, renovation and modernization and maintenance. Construction consist also prefabricated building installation in situ and erecting temporary buildings. (Vainio & Grönfors, 2009)
Construction statistics does not consist in the all construction sectors

Every country has its own statistics rules about what includes in construction sector. In many countries construction consist only professional or contracting construction. In Finland developing belong to construction sector both do it yourself and contracting. If building has been made for rent, building developing belongs to real estate sector (L). Also developing expand of the industrial building belongs to industrial classification (C). Developing state and municipal buildings belong to O- industrial classification public governance. (Vainio & Grönfors, 2009)

Construction sector intermediate products does not consist architectural services (71110), construction design and structure planning and other engineering services and technical planning (7112) neither renting construction machines without driver. (Vainio & Grönfors, 2009)

Wide definition of the real estate and construction sector

Construction sector produce itself information about construction sector output. This information does not found direct according to industrial classification. Construction and real estate sector can be described by the following way. The Finnish real estate and construction sector:

- New residential and non residential construction
- Renovation and modernization of buildings
- Civil engineering
- Real estate activities and

Construction cluster

The same definition can we do a different way (Figure 1.1.1). Year 2008 standard industrial classification does not include direct combination for construction sector products. The construction sector classification has to collect from each industrial classification class a little pieces. For example finance and insurance on construction sector is quite small of class K. Also transportation of concrete elements is a part of transportation H class. If we want to look at only construction sector work on site can we use class F.
Analysis methods

Data analysis means that the derived information combined with the earlier use of existing data. Some of the acquired information is simply data, and information such as sales figures or market share. Data is always to edit information, so that it could be used.

Analysis aims is to raise the level of knowledge, and edit the information into knowledge and understanding. There are numerous methods for data analysis. Sometimes a simple coffee table discussion is sufficient. Human knowledge sharing among the key personnel is a common data analysis.

Without the support of systematic analysis the decisions relevancy decreases, because the decision maker may then underestimate the importance of the change and look forward to changes in the environment too optimistic.

Business environment analyses. The construction industry provides a framework for industry, housing, working and leisure. Because of the wide operating environment the construction sector are analyzed a lot of through the business environment analysis. In addition, the business environment of the building industry has changed much in recent decades. Socially regulated and closed market has been opened, the local markets are open to global competition and productivity demands have increased. Business Environment Analyses are part of company's strategic thinking, planning and management. Analyzes creates the overall vision of the various factors, prevailing market situation and development of the situation. Business Environment Analyses are for example: (Vuori et al, 2008)

- PESTE
- Porter: Five Forces
- Nine Forces
- Indications and warning analysis
- Driving forces analysis

**Competition, competitors, customers and market analyses.** To follow up the competitors' actions has been an integral part of the business. Failures in the identification of competition, may lead to difficulties, and to terminate the company's business. Customer and market understanding is equally essential to the company's business. The methods of analysis aims are to convert its competitors, customers and market data collected by consensus. This analysis will help create an understanding of a competitor's product development strategies and expansion plans, identify potential new customers and markets to predict the impact of changes to business. Competition, competitors, customers and market analyses are for example: (Vuori et al, 2008)

- Country risk analysis
- War gaming
- Win/Loss analysis
- Strategic relationship analysis
- Shadowing
- Competitor cash flow analysis
- Analysis of competing
- Linchpin analysis
- Demographic analysis

**The company's own actions, strategies and analysis of the products.** Realistic view of companies owns business activities and opportunities is a prerequisite for successful operation. For a company to plan future activities and to explore the potential of its products, it is a self-analysis and critical information about their products. Analysis should take into account that, even looking at is the company itself, not the analysis can only is based on internal business data. So that overall picture is as close to the real, is also included in the analysis of external information about the company's operations and products. (Vuori et al, 2008)

- Scenarios
- Benchmarking analysis
- SERVO analysis
- McKinsey 7S analysis
- Competitive positioning analysis
- Business model analysis
- Corporate reputation analysis
- Critical success factors analysis
- Product line analysis
- Supply chain management analysis
- Technology forecasting
Information sources

The information delivered for business strategy and operative planning, competitive intelligence, can be purchased internal or external data sources (Table 1.1.1). Data supply is controlled by description of information need.

The staff is said to be the most important data source for business information. The persons who are working all the time with clients get continuously new information about clients and market trends. They get information about competitors, technologies, and general development of the business (Vuori et al., 2008). The data sources in the company are important. There we can get information from company itself and its business trends. It is important for the company leaderships to recognise company’s efforts and resources. With the external data of company it is possible to find out possibilities and threats. Without internal information of the company and knowledge of own company this is not possible. (Vuori et al., 2008).

Table 1.1.1. Internal and external data sources of business intelligence.

<table>
<thead>
<tr>
<th>Internal data sources of the company</th>
<th>External data sources of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff</td>
<td>Competitors</td>
</tr>
<tr>
<td>Operative information (e.g. sales)</td>
<td>Supplier</td>
</tr>
<tr>
<td>Company's own Data products</td>
<td>Clients</td>
</tr>
<tr>
<td>Data Storage</td>
<td>Media</td>
</tr>
<tr>
<td></td>
<td>Market research</td>
</tr>
<tr>
<td></td>
<td>Business trends</td>
</tr>
</tbody>
</table>

Nowadays companies concentrate more to collect information outside the company as clients, competitors and material suppliers. According to the study 50 biggest Finnish company’s most important needs for information are company’s own activities and competitors and clients. (Halonen & Hannula, 2007)

Information sources outside of company are numerous (Table 1.1.2). Important sources are also different kinds of inquiries and market studies, statistics and magazines and scientific publications. Internet is actually not source of information but it is channel to achieve different kinds of data sources. We can compare internet to library where you can find information. (Vuori et al., 2008)

Table 1.1.2. Examples of public and private producers of information.

<table>
<thead>
<tr>
<th>PUBLIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorities</td>
</tr>
<tr>
<td>Research institutes</td>
</tr>
<tr>
<td>Universities and Universities of Applied Sciences</td>
</tr>
<tr>
<td>Finance</td>
</tr>
<tr>
<td>Chamber of Commerce and construction sector unions</td>
</tr>
<tr>
<td>International organizations</td>
</tr>
<tr>
<td>National export agencies</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>PRIVATE</td>
</tr>
<tr>
<td>Market research institutes</td>
</tr>
<tr>
<td>Media</td>
</tr>
<tr>
<td>Social media services</td>
</tr>
<tr>
<td>Credit information companies</td>
</tr>
<tr>
<td>Education</td>
</tr>
</tbody>
</table>

Experts and managers of the company get the biggest part of the used information by personal interaction. Important situations for using human information sources are meetings, telephone calls, coffee breaks and lunch. Interaction between persons is impor-
tant in verbal dialogue. Information is so at least partly analysed and more far processed than information collected outside the company. (Vuori et al, 2008)

The information management is effective when delivery of the information is as wide as possible divided to the whole staff. We must remember that information collected from staff there are problems compared to information produced by company’s information system. The information produced by staff easy is more difficult to report than information reported from ready in explicit form information from company’s information systems. (Vuori et al, 2008)

Confidence is very important in human information use. Without confidence between each company and person dialogue will stay very short and share of information does not succeed. This happens also to information inside and outside the company. Sometimes companies publish on purpose wrong information to cover their own business and to cause harm to competitors business. This action is called counter intelligence. That is why there must be many information sources to make sure that information is correct. (Vuori et al, 2008)

The source and use of information is important. There are difficulties to reach the information outside the company. That is why companies often have outsourced information delivery outside the company. Outsourcing means that company buy different kind of reports and scientific articles. Information sources of the Construction sector can be divided to private and public sources (Table 1.1.2). (Vuori et al, 2008)

Companies use in their home land often primary information sources. Foreign companies have to use often secondary information sources because they do not have direct contacts for example to local authorities. Foreign companies have to use local expert services consultants which can collect the needed information via their own personal contacts.

RESEARCH PROJECT

The objective of the Stroi-business network was to develop management and leadership models for Finnish – Russian business networks operating in Russia.

Project description and objectives

Main objective of the project was preparing a forecast model for a total demand of the markets for different sub-sectors and different kind products of building, real estate and environmental sectors in Russia, primarily targets for St. Petersburg and Moscow regions.

Other objective was topical knowledge of different perspectives (political atmosphere, supplying the products and competition situation, customer behaviour and decision making, technology development, taking environment into consideration...)

Products / networked companies / business lines were
- Wooden products
- Residential buildings (dwellings) in new regional/urban building
- Commercial and industry building (e.g. business parks, retail parks)
- Service business (life cycle services and maintenance, services during construction)

Project outcome is a forecast model for a total demand of the products which are as a target for the research. Working model is defining the product range and realization network for companies who operating with building, real estate and environmental sectors.
RESEARCH RESULTS AND INDUSTRIAL IMPACT

Construction market in Russia

Russian construction markets are very large and focus action differ from new building construction, renovation and modernization and civil engineering in different areas.

Estimated construction volume was in construction sector about 150 billion € in 2008. Investments have speeding up during last years, but in 2009 and 2010 they have dropped dramatically and building contractors have stopped many building sites. (Perälä et al, 2009)

Commissioned new building volume was in Russian 765 000 dwellings in 2008. This means 2/3 of total new building markets. Single-family house production was almost 200000 dwellings. Most new dwellings have been built in Moscow area, Krasnodar area, Moscow city and St. Petersburg. Some weak positive signs have been noticed in those markets. Long term strategic dwelling programmes in public sector will continue slowly during next years. (Perälä et al, 2009)

Private non-residential construction increased significantly during last years by Russian and international investors, because there is lack of new modern business space. Now banks have tightened loans to those investments, but the weak recovery has started.

What market information is the opinion of companies’ important information?

Important market information change according in focus of business area and strategic importance. Most coarse information is general knowledge about construction, economy and forecasts of line of business. Next steps can be new construction volumes, forecasts and demand of products and services. Most deep step includes for instance forecasts of selected products and more accurate questions about market areas.

VTT executed in 1999 RusBuild Info-Net (possible expert network about Finnish Russian action plans) in projects of companies (21 construction companies) about needed information about Russian markets. According the questionnaire most important questions were:

- statistic from different sectors, size of markets, forecasted market growth
- information about started projects and investments
- new regulation, legislation

VTT tested with Finnish companies of Stroi-project what is needed market information from Russia. During last ten years needed market information have changed nothing much. Just this time forecasted information have got through important, so that experts can forecast, when recession changes again to increase and production of companies can adapt to changing economic situation. This information is for instance GDP-forecasts, construction forecasts and trust indicators. Also a cycle of follow-up is rapid, because information goes soon out of date.

Also Valkokari (2009) handles by cases and conceptual level formation of strategic intent and shared identity in strategic business networks.

The most-developed Russia related competence of Finnish companies can be grouped in general: Strategic Planning and Design, business communication and Sales (Fintra, 2009).
Forecast model for total demand

Construction industry is very heterogeneous in many countries. The companies vary from small one-man shops to multinational corporations. Construction has a lot of connections e.g. public administration, finance and demand from market. Construction sector is traditionally very manufacturing-oriented and product-oriented line of industry. In recent years the orientation has been shifting more towards customers and services.

Companies should constantly analyse the market. Adjusting to changes in business environment is nowadays a demanding task because, changes are likely to become more rapid and demand quicker response than before. Needs of market information varies a lot by company. Market analyses should be the more systematic and deeper the more strategic importance and networking situation is. Market analysis will provide information and understanding, which allows to redirect the company or the network's vision and strategy to the interesting market. Selection of business or market sector is continual process, in which actions and understanding grows together with importance. (Figure 1.1.3).

Companies and networks market knowledge, understanding and vision are connected and grow together. Changes in the market, in technology and competitors’ and customers’ operations affect to companies’ decisions and actions. Companies are increasingly utilising intelligence activities to transform information into actionable knowledge.

![Selection of Business Sector – continual process](image)

**Figure 1.1.2.** Network’s and companies operations model for selection of business sector.

**Selection and analysing of business sector (Figure 1.1.3):**
1. Accesses to the market (lower left corner)
   - Country level analyses (population, living standard, salary, value and amount of construction and quality of construction, political atmosphere)
2. Further Analyses of construction branch (upper left corner) (small company)
   - Key customers (who buys and buyer opinions)
   - Distribution channel (competitors distribution channels)
   - Price and terms of delivery
2B Further Analyses of construction branch (lower right corner) (Network or big company)
VTT Technical Research Centre of Finland (VTT) has developed a forecast model in order to forecast demand for different building materials and components for about 30 years for the Finnish market. This has been quite successful activity and is working well in Finland. In Russia the situation is different. In Finland, the construction industry is well established, while Russia is building a lot of growth potential. There are no similar statistics available in Russia as in Finland and therefore a new approach is needed in order to predict demand in the building sector with a reasonable level of accuracy.

The model will produce demand forecasts for construction sector material use in new buildings. The model also produces basic information on the construction and property market sector’s future service demand. This information will be needed in companies’ strategies, business plans and vision. The numeric model needs information also about the following aspects for example:

- Political atmosphere
- Economic situation
- Demand and competition of different products
- Decision-making and clients
- Technology development
- Environmental atmosphere
- Social atmosphere.

By combining numeric data and socioeconomic information about the region, companies and business networks will have basic information about total demand for building products in order to create company strategy.

Relevant basic data for the network in construction and service business is GDP Traditionally the construction output changes are greater than changes in GDP (Figure 1.1.4). Most important is to see the GDP’s turning points. In the near past construction sector has grown most of the all sectors in Russian economy, while it’s now decreasing. The potential is still enormous. In the Russia there is a need to built about 25 million new flats (60 m²) to achieve Nordic housing area (22 m²/capita ->32 m²/capita). There is also need to renovate and modernize existence residential and non-residential building stock. (Perälä et al, 2009)
Figure 1.1.3. GDP and construction in Russia. Source: Goskomstat.

VTT has developed the forecasting model for Russian market within the STROI Network project with a constructive approach by utilizing the model developed for the Finnish market. The Finnish model has been modified to fit Russian circumstances. New information items and sources have been found in order to forecast demand in the Moscow and St. Petersburg areas.

A construction and property market forecasting model based on regional GDP development, salary changes, investments, building construction statistics and changes in inhabitants and other indicators from those regions. In that construction forecast model could apply widely for different materials and services in the construction sector.

Together with market size analyses and forecasts, company or network needs information about market share, competitors, customers, prices, distribution channel and product adaption and so on.

In order to make optimal choices, decision makers need essential and accurate information and analyses from business.

CONCLUSIONS

Construction statistics from Russia, Moscow and St. Petersburg are often different than Finland statistics. In data gathering and analysing have to be aware in those differences.

Companies should constantly analyse the market. Important market information change according in focus of business area and strategic importance. Most coarse information is general knowledge about construction, economy and forecasts of line of business. For example construction has follow up with GDP changes in Russia.

Market analyses should be the more systematic and deeper the more strategic importance and networking situation is. Selection of business or market sector is continual process, in which actions and understanding grows together with importance.
Sharing competitive intelligence information between network companies is important. This strengthens trust in network and help to make right choices in business strategies.

ACKNOWLEDGEMENT

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2. Vision of Business Network (P2)

2.1 Corporate Cooperative Relations and Vision Process as its Development Tool: Markku Riihimäki and Anna-Leena Perälä

Traditionally, cooperative relations between companies and networks have been evolved and formulated, but the networks can be seen as a strategic resource that can be lead, and which may have common goals and visions. In which Vision is a value-based future status of the network’s will.

Different networks have their own objectives, partners, and an undertaking to play a role. An enterprise’s ability to operate in different networks and the ability to build a network of relationships is a prerequisite for success in the future. Operating in the network and network management is different. A modern network goes to the traditional authoritarian management more to the collaborative management. The collaborative management works best in quite democratic networks. That emphasized in international market, when the company tries to penetrate a market.

Solid working relationships with the deepest (Figure 2.1.1) form a common approach. Such a network could offer a common, end-product. At the other extreme are open networks that do not have solid working relationships. Open relationships are used, such as, joint learning, sales and marketing co-operation or co-product development. An example of an open network is VTT’s Market Information Network (Figure 2.1.2), in which various stakeholders are working together to learn and acquire market information and a new foreign market area.

Figure 2.1.1 presents a variety of network environments.

Figure 2.1.1. Different networks and environments. Source: Valkokari Katri et al, 2009.
Vision Process

Tightness and the strategic importance of the network lead to the objectives and vision formation in the network. Vision is one effective network management tool. The network’s cooperative development and implementation is a multi-level and long-time process. Strong vision provides the direction on which the network’s enterprises can rely. Vision will be the clear will of the network’s future status.

Vision process is shown in Figure 2.1.3. The vision process works best in quite democratic networks.

Figure 2.1.3. Vision process. Source: Riihimäki & Vanhatalo 2006.
The vision process should be taken into account companies visions, strategies, as well as other objectives in a single starting point. The starting point is also the network's strengths as well as the various parties' views of common objectives.

Vision process should start early enough. Ideas have to mature sufficiently long time. The views of the parties, development ideas and expectations in favour of should collect in advance. Vision process success are the early-block, leadership, scheduling and share of information. Those are the key factors.

Vision is also choice making, that's why for example the vision process should define customer profiles. In collaborative management the design of vision contributes significantly to more people than the traditional operation. During the vision process in this concept should one company be as a supervisor role. The process owner or a director wonders how the vision design is implemented.

One difficult problem for the strategic objectives is to set the goals which should be expressed as we want. There is a question: who are we? Even the company consists of several teams (stakeholders, owners, customers and staff). The same basic problems are in the network development.

The work of a network is characterized by the fact that everyone is associated with the network's co-operation from their own premises. An effective network is needed, so are networking meetings, and an open, transparent and efficient organization of information.

The network realization of the vision should be monitored for the joint management team or the management forum. The goals should be monitored and reviewed regularly. The network management team or forum does not make the actual decisions of occurrences, but signals to the parties the differences in goals and reports the results of the official decision-making.

REFERENCES


2.2 Future Business Networks in Russia for Project Based Business (Kähkönen, Huovila)

Kalle Kähkönen and Pekka Huovila
VTT Technical Research Centre of Finland

ABSTRACT

This paper provides discussion on variety of relevant business networks and their development for construction operations in Russia. Various business networks in the context of temporary projects require special attention also from the managerial viewpoint. Such networks are of strategic importance and thus they should be monitored and maintained systematically. Practical tools for this purpose are rare or do not exist. A specific tool is proposed for estimating and communicating the degree of formal and informal relationships with regard of different networks on focus. Additionally, for future operations and network
development new type of so called broker centred business networks are proposed as a new instrument that would help companies to be more agile and reactive in dynamically developing markets. However, a local cultural condition needs to be taken carefully in consideration when such networks are under development. Furthermore, a local condition is a vast country such as Russia can vary considerably from one region to another. Thus one should keep in mind that the research behind of this paper has its origins merely in the Moscow and St. Petersburg area.

INTRODUCTION

This paper encompasses networking of individuals, companies, institutions and other organizations for the creation of new business opportunities that can finally result in new operational manoeuvres (e.g. solution design and engineering, marketing project, customised product construction and delivery). Such arrangements can be temporarily or longer lasting systems and they are often called also business networks. Business network as a term has a rather broad coverage and it has a wide usage in spoken language rather than as a specific carefully defined concept. However, within this paper we use the term business network as a general reference to variety of networks enabling the creation and execution of business operations.

We adopt a perspective of a project supplier firm that has constantly multiple simultaneous delivery projects in its ‘project production line’. This is the usual business arrangement in the companies of built environment sector. More generally this is often termed as project based business. “The management of a business network is an area which includes novel research themes that relate to several firms’ activities, where the firms engage from time to time in mutual projects.” (Artto & Kujala, 2008)

LITERATURE REVIEW

The construction industry is a very heterogeneous combination of localised needs, various crafts, services, products and their professional providers. Even each service or product supplier can be seen as a business line of its own inside construction sector due to its specific characteristics, culture and terms of business. Different suppliers and other stakeholder are brought together around temporary projects in different stages of the production process. These conditions are often referred as fragmentation of the sector. On the other hand this is something we could also refer as construction project business that forms the main viewpoint of this study.

Project based business and the required arrangements can be characterised as temporary systemic set-ups. The following list (Table 2.2.1) incorporates the main contextual factors of the economic logic behind project business (modified from Kujala et al, 2008).

Table 2.2.1. The main contextual factors of the economic logic behind project business (modified from Kujala et al, 2008).

<table>
<thead>
<tr>
<th>CONTEXTUAL FACTORS IN PROJECT-BASED BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business environment level:</strong></td>
</tr>
<tr>
<td>- Accepted methods of doing business in the market segment (industry dominant logic)</td>
</tr>
<tr>
<td>- Behaviour and business culture</td>
</tr>
<tr>
<td>- Competitive situation</td>
</tr>
<tr>
<td>- Customers’ strategies and preferences</td>
</tr>
<tr>
<td>- The distribution of capabilities and resources in the value chain</td>
</tr>
</tbody>
</table>
Global internet enabled electronic-commerce, resources and financing opportunities have created new business environment where business networking is essential for all lines of businesses. Thus the business networking, its management and relating research have been very popular topics in different research institutions and provided also sources for consultative operations. The research and empirical evidence from live business operations have provided grounds for improved knowledge on business networking. Examples of such studies are (Benkler, 2006; Friel & López, 2005; Gloor, 2005; Kelly et al, 2009). Table 2.2.2 presents a synthesis of various main types of business networks that have been identified by researchers. One should note that research community prefers to use term Inter-Organizational Relationships (IOR) since this as a term is more precisely expressing the phenomenon in question.

Table 2.2.2. Categories of business networks and their control for the visualisation of those with traffic lights.

<table>
<thead>
<tr>
<th>TYPES OF BUSINESS NETWORKS</th>
<th>Degree of formal relationships</th>
<th>Degree of Informal relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uncompelled Business Networking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Long-term business network</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
<tr>
<td>2. Short-term project network</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
<tr>
<td><strong>Technology enabled Business Networking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Online networks (Collaborative Innovation Network, sales network)</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
<tr>
<td><strong>Service oriented Business Networking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Service organizations (consultants, local agents)</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
<tr>
<td>6. Professional associations (knowledge networks)</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
<tr>
<td>7. Social/business organizations</td>
<td>![Traffic Light]</td>
<td>![Traffic Light]</td>
</tr>
</tbody>
</table>
Networking and collaboration in networks have created a high interest in both research and in practical applications during the last decade, especially in the eBusiness area. In parallel with the development and spreading of Internet technologies, traditional collaboration networks have found new leveraging tools and the new collaborative business forms have emerged. Although many solutions have been based on ad-hoc applications of available technology, there have also attempts to create some systematic approaches for understanding collaboration in networks. The European project ECOLEAD (European Collaborative Networked Organizations Leadership Initiative) have recently addressed the development of new kind of solutions for business networking based on the virtual organization concept (Camarinha-Matos et al, 2008). ECOLEAD vision: “In ten years, in response to fast changing market conditions, most enterprises and specially the SMEs will be part of some sustainable collaborative networks that will act as breeding environments for the formation of dynamic virtual organizations.”

The effectiveness of the virtual organization (VO) creation process is a critical element in collaborative networks. It is considered of importance that researchers have found that the concept of virtual organization (VO) appears particularly well-suited to cope with very dynamic and turbulent market conditions. The underlying rational the possibility of rapidly forming a consortium triggered by a business opportunity and specially tailored to the requirements of that opportunity. Implicit in this idea is a notion of agility, allowing rapid adaptation to a changing environment. In order to make this possible, a VO creation process is designed in the context of a virtual organization breeding environment context. A framework for VO creation is thus introduced and a set of assistance services are designed and tools developed.

RESEARCH RESULTS AND INDUSTRIAL IMPACT

The adopted leading business network vision is the movement from traditional business networking towards more agile solutions enabled by new goals and roles. Business networks and networking should not be only understood as a managerial focus area that needs additional attention. Furthermore new kind of activities and organizational arrangements are required for capitalizing the all potential business advantages arising from networked operations.

Virtual organizations, their content, dynamics and potential business impacts have been an active research and development field within last 10-15 years. One view is that virtual organizations are next stage of development of business structures (Warner & Witzel, 2004). Virtual organizations, their creation and maintenance have also seen to be closely linked to the advances of information and communication technologies. This has been a source of several major research and development efforts (Camarinha-Matos et al, 2005). Virtual business networks can be understood as an enabler for virtual organizations. Thus we see virtual business networks as a breeding that provides highest needed flexibility

- To have preparedness of participating players to set up a virtual organisation (VO) to meet market challenges
- To have different levels of commitments and rules in place than in a traditional, and more rigid, type of business networks.

Principles of new virtual business networks for dynamic markets

A broker is an example of a new player (individual or organizational unit) for enabling efficient creation, maintenance and operations of a virtual business network. Brokers have a specialized role in this business ecosystem as an engine that creates added value from VBE (Virtual Breeding Environment) and actively develops this environment. Brokers are (commonly) neutral players that can have confidential relationship with many parties. Brokers are experts in their field of business but also in communication, group work and decision
making. Furthermore, advanced ICT tools and Web portals have an important role in these operations. As practical activities brokers form a broker network or networks with specialized cooperative nodes to form dynamic business knowledge base.

Virtual Breeding Environment (VBE) aims to create preparedness within competent actors to set up a Virtual Organization (VO) that can contribute to meet changing market challenges. It has common operating principles and organizational model. When a VO is set up from legally independent organizations, it provides to the outside world a set of services and functionality as one organization. VBE has an important role to act as a home for Professional Virtual Community (PVC). It is formed by skilled experts that find value from unofficial communicating with colleagues. Virtual Teams (VT) may arise from this social network when necessary to confront challenges common to the industry.

The concept of virtual organizations appears particularly well-suited to cope with dynamic and turbulent market conditions, such as the Russian construction market (Figure 2.2.1). It enables the possibility of rapidly forming a consortium triggered by a business opportunity and specially tailored to the requirements of that opportunity. Implicit in this idea is a notion of agility, allowing rapid adaptation to a changing environment. In order to make this possible, a VO creation process is designed in the context of a virtual organization breeding environment context. [Camarinha-Matos et al. 2008]

Two approaches to form a VO can be identified: a top down process for a designed VO and a bottom up process for emerging VOs. In the previous case, a VBE member plays the role of an opportunity broker after having detected a collaboration opportunity. The forming of the VO is then coordinated by the VO planner who is either the opportunity broker or another partner. In the latter case, the broker announces the collaboration opportunity to the VBE members and then waits for the emergence of potential consortia. The selection of the most suitable consortium can be made by the customer, VO planner or the opportunity broker. Various research prototypes applying multi-agent systems and market-oriented negotiation mechanisms for the VO formation have been developed. [Camarinha-Matos et al. 2008]
**Innovation networks**

Innovation networks refer to the early stages of the development of business and project initiatives. Constant identification of new business opportunities in dynamic and turbulent conditions cannot be based on stable networks. Collaborative innovation network or CoIN, is a social construct used to describe innovative self-organized teams. One should note these network constructs are fairly unofficial and openness is strongly present for the creation of environment where knowledge sharing is perhaps the most important motivational driver.

The five essential elements of collaborative innovation networks (what Gloor calls their "genetic code") are as follows (Gloor, 2005):

1. Evolve from learning networks
2. Feature sound **ethical** principles
3. Based on trust and **self-organization**
4. Make knowledge accessible to everyone
5. Operate in internal honesty and transparency

**Broker centred business networks for sales**

Business networks can be formed by opportunity brokers that detect appropriate business opportunities. The following figure shows an example of a Public Private Partnership (PPP) broker that helps in both setting up the customer system to the public demand side, and then connects that to the supply system built up in the delivery side. (Figure 2.2.2)

![PPP Broker](image)

Customer expectations in such a case can vary from a big customer with large service capacity needs that one service provider can not provide to small customers that lack competence to run the project efficiently or have no public bidding knowledge. Successful brokering requires expertise on business network management, public acquisition legislation and methods, and risk and value sharing.
Buzulukova (2009) has identified e.g. the following specific features in the Russian market: to progress fast, the decisions should be agreed with the general director of the company, in the early steps of collaboration distrust is common and all details should be documented, and difficulties to penetrate in existing relationships in construction. Business environments where everything is expected be agreed on paper, decisions must be brought to the top level and existing networks are strong and repulsive, are challenging for VBE brokers. They could work just to find the appropriate partner network, e.g. the bidding consortium or some finance agent. Or, if the principal agreements can be made at the level of the president of the company the brokers may act based on given mandate. The succeed the brokers need to justify the added value of their role, e.g. in finding paying customers, identifying customer needs, increasing service quality, saving time, managing risks or packaging a service tray individual actors couldn't make on their own.

**Broker centred production and deliveries**

Brokers can act as operational coordinators of production and deliveries in a very successful manner even in the case of very complex mega projects. Evidence of that was provided in the BAA’s Terminal 5 project (Brady et al, 2008). However, new kind of contracts were needed to create potential incentives. In this project the owner organization that is BAA decided to reimburse the costs of delivery and to reward exceptional performance and penalize inferior performance only in terms of profitability. This overall arrangement provided suitable arrangement for the successful work of a specialist the characteristics of which are very close to those of a broker.

**Virtual design networks**

In construction, customers may have specific service needs that can be provided by number of scattered small firms with specialized competence. The main contractor is often responsible for the design to the customer. Managing a network of specialized design firms can be run by a broker, having skills in managing a virtual design network. (Figure 2.2.3)

The Subcontractor Broker creates and manages the virtual design network for the main provider, e.g. the main contractor that owns the customership (figure 3). Such broker can manage also some functions directly with the customer if that’s required. The main provider outsources the subcontractor design network management to focus on customer relationship management and service innovation. The broker needs to have expertise on the VBE network ecosystem elaboration and management, project management, virtual organization management and legislation.

![Figure 2.2.3. Subcontractor management Broker.](image-url)
Minina et al. (2009) identified that in informal practices in Russian companies social network is more important than professional, and that personal trust is more important than institutional. In addition, within local personnel the support and help each other on horizontal level exists and people are highly motivated by development opportunities. A Virtual design network could be built on these strengths when the broker has skills in human resource management and social networks. Relevant VO tools and e.g. social media could provide opportunities for innovative VT building for agile individuals and VOs.

DISCUSSION

We can see virtual business networks as a next stage of overall commercial systems development or something else but nevertheless they are different than the traditional business networks. Despite of this the existing cultural characteristics together with people’s and institutions’ expectations needs to be taken carefully into account when maneuvers towards virtual business networks are planned. The following reveals some important characteristics of business relationships in Russia that are very likely to stay as important factors affecting various operations.

- **The role of personal bonding and contacts** in the business-to-business markets can be considered to be of a very high importance (Ledeneva 1998; Michailova and Worm 2003; Fallon and Jones 2004).
- **Persons beyond the simple dyadic relationship i.e. third persons** are usually involved Michailova and Worm (2003).
- **The continuity of personal relationships** plays a very significant role. The longer staying of expatriates (than usually) would offer opportunities for establishing strong inter-personal relationships.
- **The relationship and contacts need to be maintained between projects** and naturally during the project execution in a continuous manner. This is a Russian expectation and thus “silence” is to be avoided constantly. (Table 2.2.3)

Table 2.2.3. Benefits of long-term inter-organizational relationships in Russia.

<table>
<thead>
<tr>
<th>Functional (operational efficiency)</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint problem solving</td>
<td>- Increased efficiency through solving problems in a mutually accepted way</td>
</tr>
<tr>
<td>Reduced malfeasance</td>
<td>- Reduction of opportunistic behaviour</td>
</tr>
<tr>
<td>Crises management</td>
<td>- Even deep crises can be solved on the basis of good personal relationships</td>
</tr>
<tr>
<td>Transfer of fine grained information</td>
<td>- Access to information that enable to increase operational efficiency.</td>
</tr>
<tr>
<td>Control benefits</td>
<td>- Ability to affect the actions those actors are connected to</td>
</tr>
<tr>
<td>Process innovation</td>
<td>- Improved efficiency</td>
</tr>
<tr>
<td>Reduction of transaction costs</td>
<td>- Reduction of monitoring costs</td>
</tr>
<tr>
<td></td>
<td>- Enables the use of more efficient governance modes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relational (indirect impact to operations)</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referrals</td>
<td>- Increased project marketing success</td>
</tr>
<tr>
<td>Credibility</td>
<td>- Actors may need inter-organizational relationships to certain parties in order to be considered as a potential supplier.</td>
</tr>
<tr>
<td>Position in the network</td>
<td>- Advantageous position in the milieu. Ability to participate in project deliveries</td>
</tr>
</tbody>
</table>
Organizations may leverage IORs to gain relational benefits, such as reputation and referrals, leading to increased success in initiating and marketing new projects to existing and potential customers. This implies that project actors need to assess the state of their IORs to relevant business and non-business actors in the milieu and proactively plan how they are to be developed and leveraged in the future.

This finding highlights the strategic importance of IOR development, as actors participating in project deliveries need to spend a lot of time and resources and undertake several consequent projects to be able to build and cultivate their IORs and be able to fully reap their benefits.

Technical delivery capability alone is not adequate, because the lack of IORs effectively eliminates the possibility to market successfully succeeding project initiatives. In Russian business-to-business markets, the importance of interpersonal relationships is emphasized and in order to be able to tender for industrial systems, the supplying organization must employ persons with strong interpersonal relationships to key business and non-business actors in the milieu. Repetitive and successful project deliveries can be considered as the primary mechanism for building and maintaining long-term IORs. The competitive advantage has been created by developing strong relationships to the key actors through successful project deliveries and other relationship building activities in between projects.

Recommendations for new kind of actions and targets for business networking in Russia:

- Due to its strategic importance the company management should employ systematic procedures (tools, regular reviews, item in management meeting agenda) for business network management
- From informal personal relationships to more informal business relationships
  - The role of inter-personal relationships as a catalyst
  - Persistent relationship building
    - Several years before initial contract for first project signed
  - Capabilities in relationship building
- Companies seems not to do adequately safeguard from malfeasance
  - Building of long-term relationships that base on long-term inter-personal relationships provide a competitive advantage because they are difficult to imitate
  - Stable organizational structures as risk management
- The success or failure of the initial project delivery then determined whether the relationships could be further strengthened and leveraged to gain future business opportunities or not. Conclusion: Put more attention on project start-up.

CONCLUSIONS

The field of Inter-Organizational Relationships that is often referred as business networking has clearly elaborated during last decade into a disciple of its own. At the same time and particularly as a impact of Internet enabled eBusiness new dimensions and concepts have arisen in this field. Perhaps the most important of those is the Virtual Organization concept and its applications. Researchers have found that the concept of virtual organization (VO) appears particularly well-suited to cope with very dynamic and turbulent market conditions. This provides origins of some important proposals presented in this paper. It is considered that new kind of business networks which have been named as broker centred virtual organizations can play important role for construction business operations is Russia in near future. However, one should take into account local cultural factors that can broadly affect of the creation and maintenance of these networks.
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3. Competence of human resource (P3)

3.1 Human Resource Management In Project-Based Firms: Core Employees Focus (Minina, Krupskaja, Dmitrienko)

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KEY WORDS

ABSTRACT
STROI business network firms entering the Russian market face a lot of challenges. Some of them deal with a cultural context and others concern the new business field project-based industry. To achieve a Finnish company’s goal in the Russian context it is important to reveal cultural differences in Human Resources and Human Resource Management. To be successful in new business environment an HRM model should be designed with the focus on Core Employees. Their knowledge, skills and abilities become the main source for organizational abilities and competitive advantages. The CE profile is provided as the result of the survey.

INTRODUCTION
Construction market is developing fast in Russia. To be successful in the Russian market the company should be ready to invest time, money, and experience in developing a management system.

The opportunities from foreign market expansion are comparable with risks from it. But the risks could be reduced by searching cultural features, e.g. the basic values and beliefs of the citizens. Thus, while designing the HRM system managers have to take into consideration local features of HR.

It should be mentioned that often there is the mix of two or more approaches to human resource management in joint ventures. The personnel are influenced by both domestic HRM practices and HRM practices from the foreign side (Mother Company). Companies entering the Russian market meet the choice if they create a new HRM model, adopt their own one in a new cultural environment or develop a mixed HRM system.

Entering the Russian market, companies face to very unstable and unpredictable environment. In this case the sustainable competitive advantages could be achieved through creating “human capital advantage” (Alvaro Lopez-Cabrales, Ramon Valle and Innes Herrero, 2006) and to develop organizational capabilities through the core employees activity.
This paper provides the empirical evidence from STROI business network construction oriented companies. Most of them belong to project-based business according to their activity features. We argue that project-based firms need to develop human resource management with their focus on core employees. The authors analyze and develop the core employee concept and show its capacity of explaining HRM in project-based firms.

LITERATURE REVIEW

Cultural differences and Human Resource Management

Sociologists, anthropologists and social psychologists have tried to describe culture as an integral feature of the society (Pauluzzo, 2009). Culture has also been studied from the organizational point of view, in particular with reference to its relations with management (Schwartz, 1997; Wilkins, Ouchi, 1983). Several studies highlighted cultural elements as a key factor in HRM. They gave some evidence that cultural issues deeply affected HRM, especially in international markets (Ostroff, Bowen). Aycan, Kanungo, Sinha, (1999) demonstrated that HRM practices tend to internalize values of the national cultures. Laurent (1986:92) said that every culture has developed some specific and unique insight through its own history and transferred it into HRM.

Fey & Shekshnia's (2007) argued the key commandments for doing business in Russia are based on interviews with executives from 30 foreign firms operating in Russia and their own experience in Russia as executives, consultants, executive trainers, and researchers over the last fifteen years.

Minina and Melnik suggested the approach of analyzing cultural differences in the current management system (Minina, Melnik, 2008: 69-75). They combined four managerial values and five variables by T. Parsons and developed the matrix for these differences analysis (Table 3.1.1). Their approach was guided by Inkeles, Kluckhohn, Trompenaars, etc (Inkeles, 1978; Inkeles and Diamond, 1980; Kluckhohn, 1951; Kluckhohn and Strodtebeck, 1961; Schawarts and Sagiv, 1995; Hofstede, 2003; Trompenaars and Turner, 1998)

Table 3.1.1. Russian model of management features, by Minina and Melnik (2008).

<table>
<thead>
<tr>
<th>Pattern-variable/Attitudes</th>
<th>Attitudes towards material and financial resources</th>
<th>Attitudes towards the employees</th>
<th>Attitudes towards the time schedule</th>
<th>Attitudes towards the results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable of estimation (affectionness – non-affectionness)</td>
<td>High affectionness</td>
<td>High affectionness</td>
<td>High affectionness</td>
<td>Middle affectionness</td>
</tr>
<tr>
<td>Variable of individualism – collectivism</td>
<td>High collectivism</td>
<td>Middle collectivism</td>
<td>Middle collectivism</td>
<td>High collectivism</td>
</tr>
<tr>
<td>Cognitive variable (universalism – particularism)</td>
<td>High particularism</td>
<td>Middle particularism</td>
<td>Middle particularism</td>
<td>Middle universalism</td>
</tr>
<tr>
<td>Variable of ascription (achievement – ascription)</td>
<td>High ascription</td>
<td>Middle ascription</td>
<td>Middle ascription</td>
<td>Middle achievement</td>
</tr>
<tr>
<td>Variable of specificity – diffusion</td>
<td>Middle specificity</td>
<td>High specificity</td>
<td>Middle diffusion</td>
<td>Middle diffusion</td>
</tr>
</tbody>
</table>

Five pattern-variables show how actors make a choice between five alternatives in everyday life. The Attitudes continuum shows the basic values of management system.
The pilot study of the top and middle managers from the large and middle St. Petersburg’s firms found some peculiarities in the Russian model of management.

As for attitudes toward the employees, one can see a high level of effectiveness that means managers regard human resources as unlimited, and they do not do a lot to optimize the effort in HR practices. The middle level of collectivism means that managers rather apply a cluster (group) than an individualized approach in HRM in approximately 50% of cases. The middle level of particularism means that managers try to avoid the common rules in HRM and find an original approach to HRM in a new situation. Russian national and cultural features create the social environment in which firms from STROI business network operate.

As we have stressed before STROI organisations mostly devoted to project business. Then it is very important to provide the knowledge concerning main challenges to HRM in project business (Minina, Wikström, Gustafsson, Kosheleva, 2008), job specification and performance requirements in the era of projects and networks, and specific features of HRM in project–based firms (Mintzberg, 1993; Hamel and Prahalad, 1994; Senge, 1990; Teece, 1998; Burack, 1991). We focus on the concept of core employee and try to explain its capacity for understanding ‘human capital advantage’ in project business.

**Project-based business and human resources**

The recent literature has focused on the role of the new economy with turbulent environment and strong competition. The turbulence could be characterized by its dynamism, which is specified by ability to change and to response quickly. Since dynamic actions and readiness to modify become vital, the turbulent environment strongly influences organizations’ behavior. Flexible organizational structures and customization are needed to survive in this situation. This could be achieved through managing projects and project-based firms. ‘Project management is pre-figurative of the futures that, increasingly, we will be in’ (Clegg & Courpasson 2004:527).

Project-based firms differ from other ones particularly but not exclusively by human resource practices. In project business, employees are inclined to functional mobility, inter-company mobility, combination of roles, additional social competences, such as ability to work in a team, and leadership development.

According to Minina, Wikström, Gustafsson & Kosheleva (2008) there are two types of project-based business. A network is the essence of the first type of business. It implements projects through contracts and coordination without developing a new corporate body. There are employees whose job is to move contracts with all the interacting parties, which actually conduct the project parts. An organization of the second type is that which develops projects with its own resources. It could be described as project-based or another flexible structure. Several researchers outline the trend of using flexible organizational forms and project-based structures (Bredin and Söderlund, 2007; Ekstedt et al., 1999; Packendorff, 2002; Whittington et al., 1999).

We regard there are some differences between HR functions in two types of project-based business. In the first type of business, project teams consist of managers who coordinate all the contracts, and their activity focus on interfirm coordination and integration, and building trust in the project network. In the second one, project teams are composed of functional professionals, and they are engaged in organizational activity.

Although we argue that nowadays the number of network organizations is increasing significantly, nevertheless the second type of organizations is more widespread. Therefore, we focus on the HRM of these businesses which could be recognized particularly by project-based structures.
Usually researchers point out different HR issues in project-based firms. For instance, Bredin and Söderlund (2007) describe the role of line managers for HRM. Paul H. Jacques, John Garger and Michael Thomas (2008) investigate the leadership function of project managers. Ian Clark and Trevor Colling (2003) study qualification management in project-led organizations. Catherine L. Welch, Denice E. Welch and Marja Tahvanainen (2008) focus on HRM and international project operations.

Several studies (e.g. Midler, 1995; Lindkvist, 2004; Bredin and Söderlund, 2007) describe very important implications for HRM in project-based firms. Despite researchers from both fields HRM and project management emphasizing the relevancy of an engagement between these areas, as pointed out by Clark and Colling (2005) and Bredin and Söderlund (2007), there is a lack of engagement between project management and HRM literatures. We suppose this research could make one of the steps which need to be undertaken to fill the gap between HRM and project management in current literature. The very first crucial issue is to analyze new challenges for HRM in project-based business.

**New challenges for HRM in project-based business**

The “projectification” leads to very important requirements for a new generation of employees. Team and network formation means that the competitive advantage of the company needs to be achieved through the integration of competencies, skills and technologies (Mintzberg, 1993; Hamel & Prahalad, 1994). Individual and collective learning requires the right management, this is the only way to build knowledge assets and generate innovation (Teece, 1998). The employees’ professional competencies ought to be renewal and consist of organizational learning in order to create organizational capabilities for survive in competitive environment (Senge, 1990).

Organizations engaged in new area of business, deal with new relationships and models of internal and external interaction. The role of network relations, client-oriented approach, taking uncertainty and handling a risk, social integration become incredible. It means that HRM content and design have to be changed.

Artto (2008) outlines that “a project network is a temporary endeavor which includes a continuously changing constellation of actors in ever-changing roles” and multiple participating firms and other actors. These characteristics make project network highly dynamic. Therefore, social mobility and an ability for permanent improvements are very important for the activity of an organization staff. And the urgent task of HRM is to create an environment and provide a service for these competencies development.

To achieve success in the managing of business network it is important to have capabilities for partnership and collaboration. It requires such social skills as the understanding of social environment, adopting of cultural differences, maintaining trust, being tolerant, and high developed communicative skills of personnel. In this case the learning process takes a central place in HRM practices.

In project business the roles of the actors might change from one project to another. There are dual relations between project network actors because project firms have simultaneous mixture of opponent and partner relationships. For example, a short-term partner may become a competitor in a future project, and vice versa (Artto, 2008). From HRM perspective it is important to pay rather more attention to the improvement of negotiating skills and reflexivity of the staff.

Project business presupposes the introduction of the ‘power to the edge’ management philosophy, which focuses on moving power from the center to the edge and achieving control indirectly (Artto, 2008). It requires dynamic synchronization of employee’s actions, planning of complex endeavors, creating and maintaining trust relations between stakeholders, looking forward to development of entrepreneurial style of thinking and doing. Relationships between team members are also quite informal and unstructured, that means a
higher requirement of personal trust (Ganskau & Minina, 2008). For example, a lack of trust in a project might lead to bureaucratic control that decreases the flexibility of the project participants to act (M. Gustafsson et al., 2008). HRM should be able to develop this entrepreneurial style in organization thus to help employees cope with new responsibility levels, construct and maintain interpersonal trust, find optimal decisions in difficult conditions.

Project business deals with new business models. More often the business model is considered as one which is based on the statement of how technological inputs are transformed into economic outputs (Artto, 2008). But in a project firm project delivery is organized as an expert service which might create competitive advantage. Business transformations relating to expert services mean that solution providers are replaced by providing integrated solutions, i.e. new business models concern evolution from a goods-dominant to customer-centric approach (Wikström et al., 2008). With these models, implementation results in learning, capabilities and competencies and becomes a core activity of project-based organizations. It turns the HRM focus on human resource development (HRD) practices.

Project-based work is viewed as increasingly important for the successful coordination of the complex, interdependent and non-routine tasks (Turner, 1999). As a result, uncertainty and complexity are basic elements in project business that represent a potential risk as well as opportunity (Gustafsson et al., 2008). However, turning uncertainty and complexity into opportunity requires two things. First, the human actors involved in the project delivery process need to interpret unclear situations, and this is done by reflecting on their own and other’s actions. Secondly, not all projects are of the same degree of uncertainty and complexity and thus, the capabilities of those involved in managing the project should be matched with the degree of uncertainty and complexity of the particular project. In project-based business, risk and turbulence force HRM to focus on developing ability to handle uncertainty, to be reflexive. Reflexivity can be developed through learning by doing.

As Wikström et al. (2008) mention project business and project-based organizations put new requirements forward to project management professionals. It includes capabilities emerged as important in the projects: leading, interacting, organizing, and engineering. Also it includes ‘a capability area called ‘personality’ to emphasize that an individual’s personality can develop to certain degree by using the right training methods’ (Wikström et al., 2008:84-85). And that is the task of an HRM department.

It should be stressed that project-based firms have a competence called ‘social integration’ which means the ‘expert service that a company can provide to its customers and other project participants’ (Wikström et al., 2008:87). Therefore, expert service focusing on social integration should be included in any competence baseline for project management certification and assessment.

As we see there are several peculiarities concerning HR in project-based organizations such as ‘the right people with the right skills’, informal leaders crucial for teamwork, rear experts for some projects, a requirement to be very dynamic, flexible and educated in social relations and communications.

Summarizing, we can conclude that new business models and a new business environment push HRM towards management of social relations and social competencies development. HRM should change its structure and focus on competence (professionalism) and its developing together with developing of entrepreneurship in organization. Thus, we have highlighted four important roles for HRM, which arise in the new environment. First of all HR managers should create the culture of openness and development, because of increasing importance of social mobility and ability of permanent improvements of staff in project-based firms. Secondly, the new HR manager’s role is to build and maintain trust in organization for achieving success in project collaboration. Thirdly, HR managers should develop entrepreneurial style of thinking and doing. Fourthly, the HR manager’s role deals with de-
velopment practices, such as career development, personal development, cognitive and emotional ability development.

According to these challenges, new roles for HR managers and requirements to employees (Table 3.1.2) we propose the application of the core employee (CE) concept, which means that there is a special and very important type of personnel in each company, who bring the competitive advantages to the company (Lopez-Cabrales, Ramon Valle, and Innes Herrero, 2006).

Table 3.1.2. Main challenges for HRM in project-based business

<table>
<thead>
<tr>
<th>Peculiarities of project business</th>
<th>Requirements to HRM</th>
</tr>
</thead>
</table>
| The ‘power to the edge’ management philosophy        | - Synchronization of employee’s actions  
- Building and maintaining trust                      |
| Partnership                                          | Development culture of interaction and collaboration                               |
| Combination of different roles in actor’s activity   | Providing support for social roles changing (training programmes)                  |
| Risk and uncertainty accepting                       | Development of  
- ability to take uncertainty  
- competences in risk handling  
- reflexive approach in management                     |
| Simultaneous mixture of opponent and partner relations | Development of negotiating skills and reflexivity of the staff                      |
| Integrated teams                                     | Providing social integration approach                                              |
| Collective efforts and collective performance        | Development of a group’s ability to work together towards a common goal, resulting in the creation of a collective outcome |

**Theoretical analysis of core employee concept**

Representatives of resource-based view (RBV) of the firm argue the ways to find, keep and develop valuable resources and capabilities (Collis and Montgomery, 1995; Hamel, 1994; Prahalad & Hamel, 1990, Alvaro Lopez-Cabrales, Ramon Valle and Innes Herrero, 2006). According to this approach a unique composition of valuable resources brings the company competitive advantages (Barney, 1991; Barney & Wright, 1998; Wright, McMahan, & McWilliams, 1994). It also concerns the combination of human resources, which can create the sustainable competitive advantages.

The sustainable competitive advantages become even more crucial if the companies operate in a very unstable and unpredictable environment like project-based firms meet. In this case HRM ought to create “human capital advantage” (Alvaro Lopez-Cabrales, Ramon Valle and Innes Herrero, 2006) and to develop organizational capabilities through the core employees activity.

Based on a literature analysis, two main approaches to CE identification are revealed. The first one, let’s call it static approach, is oriented on assessment results of em-
employees which hold specific posts. The employee is considered as a CE if his results are higher than average. Apparently, the criterion for CE identification is labour productivity level in this case. Certainly, it is an important criterion, but it reflects poorly on the employee contribution to the company development. Besides, the given approach considers the post status: the higher the status is, the more valuable the employee. Understandably therefore, supporters of this approach consider top-managers as the core and most valuable employees in the company (Powell, 2002). Certainly, top management plays an extremely important role in business development, however, but obviously not every top management representative can be a CE. Enough examples are known when top-managers’ activities led to the crash of their companies. Therefore, the direct correlation of the post status with a role of a CE can hardly be defensible.

The second approach, a dynamic one, is focused measurement of employee potential and his/her contribution to company development. We consider this approach as long-term and more perspective. According to the given approach those employees who possess specific competence, necessary for core business development are CE. These people influence mutual relations with clients, their loss or their mistakes may strongly influence company results (Teitelbaum 2004:52). Lepak and Snell (Lepak and Snell 1999, 2002), based on resource theory and human capital theory, indicate two criteria for employee analysis: value and uniqueness. In their opinion, those employees who possess both valuable unique knowledge and skills, become core to the company.

In our opinion, there is a very important approach to CE identification, developed by the Spanish scientists Alvaro Lopez-Cabrales, Ramon Valle and Innes Herrero (Lopez-Cabrales, Valle & Herrero 2006). According to the authors, a CE is the one who possesses valuable and unique knowledge, skills and abilities so he/she has the unique human capital. Besides, the activity of CE is connected with the core business of the company (Atchison 1991). CEs do not only possess valuable and unique abilities, but they transform them into organizational abilities. The Spanish researchers allocate three groups of competences which can be considered as criteria to identify a CE. They are organisational, technical and client orientation competences. However, the authors do not give a lot of attention to social skills (N. Fligstein 2001) and learning abilities.

RESEARCH PROJECT

Project description and objectives

The purposes of the research:

- To reveal differences in Russian and Finnish approaches to HRM practices;
- To design Core Employees Profile (CEP);
- To work out the recommendations concerning HR practices improvement.

Research methodology

The survey is a part of the Russian-Finnish STROI Network research project conducted in 2008-2009. It was conducted by HAMK University of Applied Sciences, Tampere University of Technology, VTT Technical Research Centre of Finland, Higher School of Economic from Moscow and State University, Graduate School of Management and Faculty of Sociology from St Petersbourg.

The main idea of the whole project is to find out management and leadership models suitable for Russian business context. The main research field for this project is a constructive market both in Finland and Russia. Finnish construction oriented firms, operating in the Russian market were studied. Companies connected with the construction industry include consultant firms, construction companies, design firms, training firms etc. For the HR part of the project, 10 companies have been investigated. The size of private firms ranged from small (under 20 employees) to large (over 3,000). Some of the companies have operated
on the market for more than 30 years, others are just new comers. Qualitative data have been collected by conducting 17 semi-structured interviews with the senior managers, heads of the departments and HR managers. There were face-to-face interviews each lasting one hour.

The current study is an example of how qualitative, open-ended interviewing can lead to new conceptual insights and issues (for a study based on similarly ‘unlooked for’ results, see Buckley and Chapman, 1997). Interviews were designed through six blocks including two blocks of questions about defining and managing CE. In some cases we had contacted the informant before the interview, thus he/she had a possibility to look through the main topic for discussion and to have more time for deeper talk during the face-to-face meeting. Other interviews have been made without preliminary familiarization with the questions.

RESEARCH RESULTS AND INDUSTRIAL IMPACT

Differences in Russian and Finnish HR and HRM practices

The empirical results describe differences in HR, HRM practices and impact of the main incentives. (Table 3.1.3, Table 3.1.4) The main differences in HR are devoted to employees’ competences, decision-making process and discipline in the work place.

Respondents outlined a lack of practical-oriented professional skills of Russian graduates. Moreover, Russian employees do not often have the willingness to take responsibility in decision-making. They prefer to wait for directions from the manager than to be involved in the decision-making process themselves. A lot of Russian employees also have a low level of decision-making skills.

There are several differences in the decision-making process. For Finnish companies the long, thorough process with detailed discussion is very important. In contrast for the Russian managers, it is more common, due to time limitations, to have short or no discussion. And decision-making could be characterized by high speed.

There are differences between Russian and Finnish employees in the meaning of discipline. Finnish employees never use work time for private purposes. However, Russians are used to private communication during work-time. Also, Finns get into the way of following a project schedule and do the parts of the job just in time. On the other hand, the schedule is not so important for Russian employees. They are often oriented to the final deadline.

Differences in HRM are devoted to managing the adaptation process, reward system and employees’ development. Finish companies in contrast to Russian ones have developed coaching programs for new comers. However new comers in Russian companies get colleges support more often.

The reward system in Finnish companies is more complicated than in Russian ones. It means that parent company reward system could be not clear for Russian employees.

Also, we have revealed the differences in attitude towards development discussion and the development discussion procedure. For example, many Russian employees consider development discussion as pressure and assessment.

There are also some common features between Russian and Finnish HRMs. For example, there are no great differences in recruitment and training principals. In both countries companies search for the best applicants internally, use social network relations, university career centers, recruitment agencies, Internet and newspapers. The differences in providing short-term courses, education in corporate universities, MBA etc. are caused by the company’s strategy, the size of the company and top-managers point of view.
One of the remarkable results is devoted to developing the HRM model. There are three approaches to HRM, which Finnish companies can follow in Russia. They may accept local practices, adopt Finnish practices or develop mixed HRM model.

Table 3.1.3. Differences in Russian and Finnish HR and HRM practices.

<table>
<thead>
<tr>
<th>Features of HR</th>
<th>Russian context</th>
<th>Finnish context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ competences:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision-making skills</td>
<td>Low level</td>
<td>High level</td>
</tr>
<tr>
<td>Willingness to take responsibility in decision-making</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Decision-making practices:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term orientation</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Thorough process</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Speed of decision-making</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Discipline on the work place</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using working time for private matters</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Importance of following project schedule</td>
<td>Only deadlines are important</td>
<td>The whole schedule is important</td>
</tr>
</tbody>
</table>

| Features of HRM | | |
|-----------------|-----------------|
| Recruiting practices | similar |
| Managing adaptation process | | |
| Detailed program of adaptation | No | Yes |
| Coach support | Seldom | Often |
| Colleagues support | Often | Rarely |
| Reward system: | | |
| Clarity of parent company reward system | Low | High |
| Training programs | similar |
| Employees’ development: | | |
| Attitude to development discussion | Pressure | Opportunities |
| Development discussion procedure | Assessment | Support |

There are some differences in impact of incentives, which influence employees’ performance in Russia and Finland. (Table 3.1.4) In the Russian context, financial incentives are more crucial than in the Finnish one.

Table 3.1.4. The main incentives and their impact on employees.

<table>
<thead>
<tr>
<th>Incentives</th>
<th>Russia</th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rewarding for outstanding performance</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Covering educational fees</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Medical insurance</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Pension programs</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Support in housing loan and credit</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Non financial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work-life balance policy</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Participating in decision-making process (for some groups of staff)</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Best employee recognition (from time to time)</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
In general people worked in joint ventures have to develop social and communicative skills such as open-mind, easy-going and emotional intellect. For communicative skills the crucial issues are language and presentation skills.

**Core Employee Profile**

We were interested in what kind of competences will be highlighted for core employees. The most interesting definitions for a CE given by informants were:

"Key persons support key clients in our company. They constantly monitor client’s situation...That help us to predict activity of competitors who can make interesting suggest to our client”.

"They can agree upon difficult situation, do not afraid of responsibility and decision-making, can use support then necessary”.

"Core employees “transmit the feeling of company”. They should be very responsible, because they are company representative and can form an image of the whole firm”.

"They play on the field and should be very active”.

"Core employees are department managers. They have work experience usually more than 10 years, good interactive skills and an ability to get along with their teams”.

"Core employees whom you can really trust are well-known for managers, sometimes called as worker with "hands”. These are really capable workers”

"Key persons are the ones having strategic knowledge and multiple skills. These persons carry out their work on excellent level”

"CE... make money for the company”

"CE have very high level of social or communicative skills, they create partnerships and networks.”

We have seen that the most important features for a CE are not only social and communicative skills, self-determination but also a high level of mobility. It means that the employees need to be ready to move not only vertically but also horizontally (a different subsidiary in another region). A CE is also not afraid of taking more responsibilities.

Based on interviews we could say that a lot of companies highlight their CE, but they have very different criteria for their identification. In one company CEs are described as high-potential employees. In another case, they are characterized as high-performers. It is the companies, which implement the Hay’s system, that CEs are recognized as having the highest grades. For some companies CEs are described by special features.

The practice of financial evaluation of CE impact (contribution) is not developed. But there is a common practice to evaluate satisfaction, expectations, challenges etc.

Based on analysis of informant’s opinion concerning risks and problems associated with CE we can state 3 main aspects:

At the stage of identifying a CE, there are some mistakes. These can lead to investing into the “wrong people”.

Some people regarded as a CE tend towards ‘star fever’. Therefore, they can expect exaggerated attention from the management to them and their demands can be steep and unreasonable.
CEs are very influential and important persons in the company; they concentrate essential functions, connections, and take part in strategic decision making. Therefore, if some of them decide to leave the company, they can face the risk of losing money or clients, or breaking significant activities.

The pilot survey formulated a hypothesis of the criteria of CE identification. Each of the criteria is defined as a group of competences, which provide sustainable competitive advantages of the company. (Figure 3.1.1):

- Learning: the ability to learn by experience and from best practice
- Competence: the ability to develop technique aspects of products and services
- Integration: the ability to integrate all stakeholders. It could be the team or the whole network. Social or communicative skills are very important here. And a CE becomes a social knot as he or she develops this group of capabilities.
- Reflection: it is very important to realize and reflect on all the experience developed in an organization. Rethinking and taking decisions based on the analysis. This capability provides the dynamic of the company. This is a sign of a learning organization.
- Trust relations: the ability to build trust in relations with stakeholders. Trust is a very important feature of social capital of organization.

A system approach allows a description of these groups of capabilities on each level of a firm: the employee level, team level and organizational level. And the extent of possessing these abilities describes the uniqueness of the employee, team or organization.

![Core Employee Profile](image)

Figure 3.1.1. Five groups of CE capabilities.

We consider that the social component is one of the most crucial in the list of these groups of capabilities. It is very important for knowledge-based firms to develop interfirm and intrafirm trust and cooperation. A CE is able to have relations with people from very different social and professional environments. A CE could be considered as a knot in a social network, not only value and uniqueness of KSA should be be measured, but also sociometric tools are required for CE identification.

It is clear that the listed abilities cannot be equally developed, in any case, there are dominant abilities, for example, people with a critical style of thinking hard, will be good integrators or trust conductors. Therefore, a balance and a certain sort a combination of the
specified abilities is important. It is necessary to notice that the configuration of abilities (their parity) depends on branch, a stage of life cycle of the organisation, strategy of the company and of some other factors.

One of the key aspects of CE identification is the social aspect. The social component of the intellectual capital inter- and intraorganizational trust is very important. A CE co-operates with people from various social and professional groups. As the CE is considered as a social knot, not only should the degree of value and uniqueness of his/her knowledge of skills and abilities be measured, but also mutual relations.

We suggest that three-field model is applicable for CE recognition (Figure 3.1.2). There could be three main fields or levels which influence growing CE of the company: social field (all the colleagues and informal groups at workplace), organizational field (usually management of the company who notice the most valuable employees and give them more responsibility and credentials) and professional field (all kinds of different internal specialists and external societies and organizations which consider this person as an expert).

![Three-field model for CE identification](image)

The analysis above allows us to draw a conclusion that CE identification is connected with forming the profile of competences, which are defined by five groups of abilities. However, this conclusion generates a new problem: who should develop a CE profile.

We consider that to form a CE profile, expert from three groups need to be involved. The experts are representatives from management of organisation, professional associations and social network, which is important for the company. It could be an intrafirm or interfirm network. Experts’ opinions could become the basis for CE profile development.

One of the major problems of management human resources in STROI business network firms is how to develop and change the CE profile if necessary. The CE profile consists of concrete characteristics which fulfill each of the group of abilities marked above. Forming a CE profile will promote the increase of efficiency of recruitment, assessment and development technologies and also construction of more productive reward systems.

First, managing a CE supposes the creation of such conditions that are favorable for the realisation and further development of their abilities, for increasing their contribution in organisational performance.
Implementation and exploitation

As our prior results show, to achieve success in operating on the Russian market Finnish constructing companies have to pay more attention to such HRM practices as adaptation, training, development and rewarding. All training and development programs could be divided into two main directions: organizational learning, and competence and skill development. For organizational learning, a very crucial point is to translate organizational culture: values and basic beliefs, mission, organizational goals and management tools. For competence and skill development of employees the focus should be done in teamwork, sharing knowledge, decision-making, self-determination, goal setting and practical-oriented professional skills.

Managers from Finnish companies who work in Russian subsidiaries have to describe all the management practices especially development discussions very precisely, because Russian employees could have an absolutely different view about them.

As Russian employees have some peculiarities concerning rewarding preferences in comparison with Finnish employees, the difference in structure of rewarding system should be noticed and stressed. The whole system and future financial opportunities should be transparent.

The profile of CE ought to be defined and on the basis of this profile, HRM practices should be improved or developed. For achieving success in management some way of evaluation of a CE needs to be implemented. It could be a questionnaire or part of development discussion including questions about satisfaction, motivation, future development, expectations, etc.

CONCLUSIONS AND DISCUSSION

The very important issues raised in this paper are cultural context and challenges for HRM which the STROI business network firms face in the current turbulent environment. We argue that it is possible to manage these challenges and achieve sustainable advantages though CE identifying and developing an HRM system with CE orientation.

Empirical research proves the necessity of CE profile identifying and on the basis of this profile, HRM practices should be improved or developed. The results show the most important features for staff of the companies involved in network relations. These features are social and communicative skills and competences concerning self-determination and goal setting, and a high level of mobility. It is very important to recognize the potential risks of focusing on the CE in HR practices as well.

Based on interviews we consider that there is a significant interest in CEs from practitioners, but very few academic researchers were found. The social component is defined as crucial for CE identification. It can be evaluated through using sociometrix tools. Also, the developed CE profile can be worked out in detail and become a tool for CE identification as well.

ACKNOWLEDGEMENT

The authors gratefully acknowledge the financial support of HAMK and a number of Finnish private companies, which have given new research directions for HRM in project-based organizations. Additionally authors acknowledge co-operation partners HAMK University of Applied Sciences (Hämeenlinna), Tampere University of Technology, VTT Technical Research Centre of Finland, and High School of Economics (Moscow).
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APPENDIX

STROI –Network
REPORTING TEMPLATE
Interviews

All interviews need to be recorded and carried out in the mother tongue of the person interviewed. In the case where this is not possible the English language should be used. A memorandum (later on memo) should be worked out by the interviewer immediately after the interview and, if necessary, the memo should be checked by both parties of interview. The memo should then be translated into English (US).
Memos will be copied to NVivo 7 as MEMOs.

Part 1: All memos covering the interviews should include answers to the following

1. Network related to CASE
2. Time of interview
3. Place of interview
4. Persons at present
5. Position and tasks of a person to be interviewed.
We would like to ask you some questions devoted to the human relationships in your company. The results of the poll will be used for the designing the model of human resource management which could help Finnish companies to increase the efficiency of their operating due to knowing the special aspects of HRM in Russian-Finnish construction-oriented market.

1. **Principals of development relationships in network**
Who is responsible for making arrangements in network and maintaining relationships with “permanent” network partners?

What personal features do employees who deal with network partners need to have for successful working?

How does the company choose new partners?

What kind of problems does your company face dealing with network partners?

2. **The differences in the recruitment principals**
How does your company search for candidates?

What is the procedure of candidates’ selection?

Does the company make the personnel pool? What is the way of the forming this pool?

What are the main difficulties to find good employees in your field of business?

3. **The differences in motivation management in Russia and Finland**
What ways does the company use to motivate people? Do you have any compensation system? If yes, please, describe it.

Who discusses, applies and is responsible for motivation system?

How does the company detect the effectiveness of motivation actions? Are development discussions used?
4. The differences in the personnel training
Does a company have any educational programs for the personnel?

Who is responsible for the planning of the personnel training - who makes decision about the necessity of this kind of planning? Who confirms the plan? Who controls the plan fulfilment?

What kind of training do your personnel have?

Does the company pay for personnel education?

5. The differences in the personnel development management
How do you deal with new personnel? (Introduction, mentoring etc.)

What is the usual way for career development in the company?

How do you assess or measure the staff work? Do you have special procedures or system of assessment? If yes, what are the principals of these procedures and what is the output of them?

6. Definition of the key employees in the company
Please, define the key employees who give your company competitive advantage. It could be some main posts or type of employees. How could you describe those personnel?

What kind of competence and skills should key employees have (theoretically)?

What problems do you face when you manage these key employees? What limitations does the company have in case of these staff? How do you work with these difficulties?

Is there human capital evaluation in your company? Do you estimate human capital? If yes, what kind of HRM methods or instruments do you use?
4. Internal development of the network (P4)

4.1 The Evaluation of Perceptions of Finnish and Russian Manager Regarding the Organization Learning Potential of Their Firms (Settles)

Alexander Settles, State University – Higher School of Economics, Moscow, Russia,asettles@hse.ru.

ABSTRACT

In this research, I test whether a country level culture affects the readiness and acceptance of learning organization concepts. Based on a series of case studies, interviews, and a survey of 55 Russian and Finnish management students the results indicate that there are differences between Finnish and Russian managers to create an environment for learning, adopt learning organization practices, and develop leadership for organizational learning. These are the preliminary results based on a non-representative survey.

INTRODUCTION

Russian companies face a significant problem of developing the conditions that support a learning organization. In western business, the concept of creating a learning organization has been built on the basis of long history of organizational change that supports learning, knowledge creation and management, and in process re-engineering to improve the quality of the organization's processes and products and services. As Garvin, Edmondson, and Gino (2008) have recently pointed out that business leaders may think that getting their organizations "to learn is only a matter of articulating a clear vision, giving employees the right incentives, and providing lots of training." This assumption misses out on the real tools of organizational change required to build a learning organization. This is particularly important in the Russian business environment since the transitional Russian and early Soviet models of organizations do not support the primary conditions of creating a learning organization. Employee training and incentives and the company’s or State’s demands for creating innovative solutions have become very popular in the Russian business culture but this in itself does not create learning organizations. Western (Finnish) business practices vary significantly from Russian practices and the open learning environment encouraged in western business may come in direct conflict with Russian business practices.

LITERATURE REVIEW

Learning and knowledge creation have become central to developing sustainable competitive advantage in the knowledge economy (Barney, 1991; Boisot, 1995; Barney and Hesterly, 2006, Garvin, Edmondson, and Gino 2008). Business faces strong competitive forces and it is essential that their employees create knowledge continuously, learn faster, and know more than others to remain industry leaders. One limitation to organizational learning is the role of national culture in multi-national enterprises. In the a study by Barkema et al (1997) they found that within joint ventures cultural distance (Hofstede 1980, 1991) between companies of different countries led to the difficulties in the transference of abilities and knowledge. Between compatible country cultures, Levison and Ashai (1995) found that characteristics of learning organizations are facilitated. Roreiguez et al. (2003) found in an empirical study that unequal attitudes to work and different methods of communication hampered the development of learning organization between strategic alliance partners.

The learning organization in Russian company culture has unique features that are related to the specific Russian practices related to the method of management, responsibil-
ity sharing, and limitation of liabilities resulting from action and inaction. The paper examines the strengths and weaknesses of Russian business culture and draws on learning organization theories to identify the particular features of Russian business culture that limits or encourages the creation of a learning organization. A section of the report will examine the culture of decision making and control mechanisms in the Russian company and the need within the Russian business environment to have strong control mechanisms. Drawing on interviews with Russian company officers the compatibility of a learning organization practices with Russian company culture will be assessed. It is expected that there will be significant cultural differences between a well-managed Russian company model and company that has embraced a learning organization framework. A crucial component of the learning organization model that may not fit into typically Russian company culture is the concept of empowerment of employees to improve the organization through learning. The balance between control and empowerment has been examined and Russian specific features explained.

A learning organization is not a new concept; humans have a propensity for learning and business organization have over time tapped into the learning ability of their employees to create new technologies, improve current processes, and to serve better their customers. The concept of a learning organization was crystallized in the work of Peter Senge in his 1994 book The Fifth Discipline: The Art and Practice of a Learning Organization. The convergence of five component technologies in the 1990s forms the basis of creating a learning organization. The integration of the technologies of systems thinking, personal mastery, mental models, building a shared vision, and team learning provide the vital dimensions to create a learning organization. The crucial components of a learning organization can be summarized as a supportive learning environment that permits the questioning of current practices, creating concrete learning processes and practices, and firm leadership that reinforces learning and allows the space for implementation of these five technologies of a learning organization.

A crucial building block of a learning organization is a supportive learning environment. An environment that supports learning has four distinguishing characteristics according to Garvin, Edmondson, and Gino (2008). First psychological safety must exist to allow employees to apply system thinking and personal mastery technologies and to find new mental models to solve problems. To learn, employees cannot fear being belittled or marginalized when they disagree with peers or authority figures, ask naive questions, own up to mistakes, or present a minority viewpoint. Instead, they must be comfortable expressing their thoughts about the work at hand. This issue is crucial in a cross-cultural situation as there are basic differences in how employees will question current practices. Secondly, an organization must be able to allow for the appreciation of differences. Learning occurs when people become aware of opposing ideas. Recognizing the value of competing functional outlooks and alternative worldviews increases energy and motivation, sparks fresh thinking, and prevents lethargy and drift. Thirdly, there must be openness to new ideas. Employees should be encouraged to take risks and explore the untested and unknown to challenge existing mental models of the organization. At the same time, managers must be able to mitigate these risks without stifling creativity. Fourthly, there should be a time for reflection. All too many managers are judged by the sheer number of hours they work and the tasks they accomplish. When people are too busy or overstressed by deadlines and scheduling pressures their ability to think analytically and creatively is compromised. They become less able to diagnose problems and learn from their experiences. Supportive learning environments allow time for a pause in the action and encourage thoughtful review of the organization’s processes. The survey used in this research paper is based on this model.

The concept of a learning organization has been well explored both in the management literature and through practical application. In western firms, there exists an expectation for innovation and learning that are made clear in slogans such as IBM’s Think, Intel’s Leap Ahead or 3M’s Spirit of Innovation. The implementation of learning organization strategies in western firms can also provide guidance for the potential problems. To implement a learning organization strategy it is clear that a firm must penetrate below the top
management and engage mid-level managers into the process of fostering a learning culture. In western firms, there has been significant conflict between performance-based management and learning organization practices. Striking the right balance between performance (hours worked, units produced, value added) and that of learning and innovation is crucial to create an accountable organization that learns and innovates. Also, western firms have found it difficult to assess how their teams’ learning was contributing to the organization as a whole.

This paper draws on the learning organization theory and recent studies of western practices to develop a tool (questionnaire) to analyze Finnish and Russian company practices. The results of this research are to understand the current situation with regards to learning organization development in Finnish and Russian firms. It is also to create a metric that can be used by Finnish firms when they enter the Russian market to determine how to create branch offices that utilize learning organization practices, to select Russian employee that are well suited to a learning organization framework, and to judge how well Russian partners may operate within a learning organization framework. This research fits into the category P4 Internal Development to create an Agile and learning network.

RESEARCH PROJECT

Project description and objectives

This project attempts to increase the understanding of the learning organization potential of Finnish firms operating in Russia. The project was intended to study the internal development of the network and culture of businesses within the Finnish business networks in Finland, Finnish offices in Russia, and Russian partners. The objective of this research project was to determine if the network relationship within the Finnish-Russian firm network would be able to implement and benefit from learning organization practices. The key research question is whether there are cultural differences between managers and employees working in the Russian and Finnish environments that would lead to barriers to implement a learning organization framework. The research also attempts to identify the openness of employees toward knowledge management, innovation and diversity.

Research methodology

This research is based on a descriptive analytical model that attempts to connect country business culture to the level of organizational learning. The following hypotheses have been defined:

H1: There will be a significant variation in the shaping of learning organizations based on the country business culture.

H11: The degree a firm has a supportive learning environment will vary with country location

H12: There will be a significant variation in the development of a concrete learning environment based on country location.

H2: There will be a significant variation in the management support and leadership in creation of learning environment based on country of operations.

The methods used for the study of internal development of the network and culture of businesses within the Finnish business networks in Finland, Finnish offices in Russia, and Russian partners involves the survey of attitudes of managers and employees at these net-
work member entities. The first stage has involved the mapping of network partners, identifying the population of firms to be surveyed and selection of sample from this population.

Learning Organization Questions included in the Survey Instrument

1. We would like to understand the working environment within your unit (company).

   Do your employees feel comfortable approaching their managers with their concerns, problems or disagreements? Is there a formal process for managing this process of interaction between employees and management? Are people in this unit eager to share information about what does not work as well as to share information about what does work?

2. In terms of capturing best practices or knowledge and experience created by your employees, do you feel that your company does an adequate job of insuring that this knowledge and experience is retained and used?

   Do your managers value new ideas? Are employees rewarded for bringing forward new methods of work or new technologies? Does your company have a formal system of knowledge capture and management? Do your employees regularly participate in training? Is that training evaluated and is employee productivity improvement resulting from training measured?

The methods used for the study of internal development of the network and culture of businesses within the Finnish business networks in Finland, Finnish offices in Russia, and Russian partners involves the survey of attitudes of managers and employees at these network member entities. The first stage has involved the mapping of network partners, identifying the population of firms to be surveyed and selection of sample from this population. During this first phase, a questionnaire that includes internal development of the network and culture and other components of the project was developed and finalized at the first stage of the project. The full survey on strategic control, cultural values and learning organization behaviors was pre-tested during a visit to one of the participating companies. The survey proved to be very long to administer and the questions related to learning organization were lost in the overall approach.

The second method used to detect differences in learning organization practices and potential was the use of an extensive learning organization survey that investigated the LO potential over eight factors. The survey instrument is included in appendix 1 and is based on the survey instrument use by Garvin, Edmondson, and Gino (2008). The full survey included questions that evaluate the building blocks for a supportive learning environment, the development of a concrete learning process, and leadership that reinforces the learning process.

The survey instrument measures nine factors: (1) psychological safety, (2) appreciation of differences, (3) openness to new ideas, (4) time for reflection, (5) information collection, (6) analysis, (7) education and training, (8) information transfer and (9) leadership that reinforces learning. The full questionnaire has been used to survey two groups of managers from Finland and Russia. The respondents work in Moscow or in the Hämeenlinna region in Finland. The managers were attending MBA programs at a Russian and a Finnish business school so there was selection bias in the sample that may have influence the final results. The survey respondents are non-representative samples of the population of Finnish and Russian managers.

Culture distance theory (Hofstede 1981) indicates that there would be significant variation in the variables that create a supportive learning environment and leadership that reinforces learning. Russian companies have adopted many management procedures that facilitate a concrete learning process so the variation between Russian and Finnish compa-
nies may have disappeared though implementation of such policies may remain. The following table is a summary of Hofstede’s estimates of cultural differences.

### Table 4.1.1. Hofstede’s Estimates for Finland and Russia.

<table>
<thead>
<tr>
<th></th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
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<td>Finland</td>
<td>33</td>
<td>63</td>
<td>26</td>
<td>59</td>
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<tr>
<td>Russia</td>
<td>93</td>
<td>39</td>
<td>36</td>
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<tr>
<td>US</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
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<tr>
<td>World Averages</td>
<td>55</td>
<td>43</td>
<td>50</td>
<td>64</td>
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Where PDI - Power Distance Index, IDV – Individualism, MAS – Masculinity and UAI - Uncertainty Avoidance Index

The power distance index differences are significant between Finland and Russia and this difference could form the basis for rejecting the null hypothesis that would be no different between Finnish and Russian company practices regarding building a supportive learning environment or leadership that reinforces learning. Increased power distance would lead to less psychological safety, less openness to new ideas, and reluctance to question one’s manager. A lower estimate on the individualism characteristic for Russia also indicates less potential for less initiative from employees to involve themselves in the learning process. Russia’s higher uncertainty avoidance index estimate would also indicate that the null hypotheses that there would not be a difference in learning organization practices could be rejected. Uncertainty is part of the learning process and openness to new ideas and questioning established practices leads to uncertainty. In comparison to the sample used by Garvin, Edmondson, and Gino (2008) of US executives the Finnish managers would be culturally closer using the Hofstede cultural dimensions model. There would be an expectation that the US managers would score higher on openness to new ideas and appreciation of differences than the Finns, due to the higher scores on individualism and lower score on the uncertainty avoidance index.

### RESEARCH RESULTS AND INDUSTRIAL IMPACT

The results of the series of interviews on Finnish companies and their Russian subsidiaries provided only limited results. The interviews conducted in depth with one company indicated that there are differences in approach to learning between Finnish and Russian managers. In the opinion of one survey, respondent Russian managers demonstrate less openness and leadership in the acquisition and collection of new knowledge. The overall approach was first to have Russian managers and workers to conform to firm wide policies and to implement management and decision making process to integrate the Russian subsidiary into the Finnish company’s management practices. There may be such learning organization or knowledge management programs in the parent Finnish company though these policies are not implemented in Russian subsidiaries. The first priority tends to be to implement management control systems and adherence to Finnish company-wide policies through replication of company rules and systems in their Russian subsidiaries. Learning organization policies can wait.

### Results

An overview of the surveys implemented other researchers by Tretyak et al (2009) on customer relations and Krupskaja (2009) on personnel policies indicates that the other Russian subsidiaries demonstrate some of the characteristics of a learning organization but do not
have formal or systematic approaches of using this information or knowledge. The firms surveyed do not have formal process of developing customer relations or collecting and analyzing data from customers. The human resource management office did report that these subsidiaries were engaged in providing educational benefits.

These other interviews also provided a clear understanding of how Finnish companies have entered the Russian marketplace. According to the survey results of Tretyak et al. (2009), there are three principle modes of entry: (1) greenfield entry with establishing a wholly owned Russian subsidiary, (2) brownfield entry of purchasing an existing Russian company, or (3) establishing an affiliate relationship with an existing Russian company. In the cases of outright purchases, the Finnish company should be able to implement all of its policies without interference from other owners. In the case of an affiliate relationship, the contractual relationship would dictate the degrees of freedom to require management or process changes.

Since it was not possible to survey managers in the Finnish companies or their Russian subsidiaries due to refusal of these companies to implement the survey, this research surveyed a non-representative sample of managers in both countries to determine if there exists a cultural difference in the proclivity towards the components of a learning organization.

The survey results of Russian and Finnish managers indicate that there are some significant differences. In comparison with the scaled scores of the Garvin, et al. (2008) study both Finnish and Russian managers scored lower than US managers in the development of a learning organization framework in their respective companies. Chart 1 graphically demonstrates the survey results on the nine factors. The Finnish respondents rated their firms as higher in the learning environment indicators of Psychological Safety and Openness to New Ideas while also rating the firm practices higher in Information Collection, Analysis, Education and Training, and Information Transfer. Finns also report higher Leadership that reinforces learning ratings of their managers than the Russian respondents. The Russian respondents scored their firms higher in the learning environment indicator of Appreciation of Differences. Both Finns and Russians reported little time for Time for Reflection and the level report was nearly the same as reported in the US indicating that most firms do not make time available for reflection. This remains a key weakness in the development of learning organizations.
Further exploration of the results indicates that there were statistically significant differences in two indicators. Applying the student t-test method to independent samples the following hypothesis could be rejected for the Appreciation of Differences and Education and Training indicators. The student t-test involves the following hypotheses regarding whether the means of two independent samples are different.

\[ H_0: \mu_1 = \mu_2 \]
\[ H_a: \mu_1 \neq \mu_2 \]

There was a significant effect for ratings of Appreciation of Differences, \( t(53) = 1.91, p < .06 \), with Russian firms receiving higher scores than Finnish ones. Russian respondents rated the Appreciation of Differences more than eight points on average higher than Finnish respondents. There was also a significant effect for ratings of Education and Training, \( t(53) = 2.65, p < .01 \), with Finnish firms receiving higher scores than Russian ones. In terms of the firm practice of Education and Training Finnish respondents rated their firms nearly 14 points higher in their practices. Analysis of other indicators did result in statistically significant variances in means of respondent scores.

In the case of the respondents answers to the indicator of Leadership that reinforces learning, while there was not statistically significant difference in their means, the distribution of results does indicate an interesting pattern. The following graph is a histogram of the distributions. Russians scored their managers lower than Finns with both lower mean (69 for Finns versus 65 for Russians) and mode (70 for Finns versus 60 for Russians) scores.
Figure 4.1.2. Histogram of the distributions. Russians scored their managers lower than Finns with both lower mean (69 for Finns versus 65 for Russians) and mode (70 for Finns versus 60 for Russians) scores.

Implementation and exploitation

The significant difference in Hofstede estimates of country level culture in Power Distance Index, Individualism, and UAI - Uncertainty Avoidance Index between Russia and Finland should lead differences in whether firms create a supportive learning environment, adopt concrete learning processes and practices, and whether managers demonstrate leadership that reinforces learning. The limited results from the case studies within the STORI-Network project indicate that Finnish companies operating in Russia do not replicate their learning processes and practices in Russia. Why this happens is unclear. Speculation based on an overall reading of case reports and an understanding of Russian business practices indicates that Finnish firms are attempting to develop company cultural within their subsidiaries that adheres to their parent company practices while adapting it to the Russian environment (either by design or ad hoc steps).

The combination of survey results and case study analysis indicates that there is evidence, though only of limited statistical significance, that there exists significant variation in shaping of learning organizations based on country business culture. Using the Garvin, et al. (2008) model of learning organizations the Finnish respondents indicated in seven out nine indicator higher ratings of their firms and managers appreciation of learning organization environment and practices. The supportive learning environment seems to vary with country as well as the development of a concrete learning environment. The null hypothesis that there will not be a significant variation in the management support and leadership in creation of a learning environment based in the country of operations could not be rejected statistically but the Russian respondents did score their managers lower. This fits the expected
outcome based on cultural difference as measured by Hofstede. Higher power distance should lead to less leadership in creation of learning environment since managers are harder to approach and less likely to listen to subordinates ideas.

CONCLUSIONS

While it is clear that in some manner learning organization readiness and practices differ between Finnish and Russian companies this research cannot be seen as conclusive. The next steps in the research process would be to conduct a broader survey to include perhaps all member companies of the STORI-Network or a representative sample of Russian and Finnish managers. In addition, the next steps in the research process should be to understand what learning organization activities are underway in Finnish companies operating in Russia. Without learning and knowledge management subsidiaries of Finnish companies operating in Russia will not be able to supply the necessary in-country experience to build company level competitive advantages.

ACKNOWLEDGEMENT

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REFERENCES


ABSTRACT

Globalization and growing competition force companies to look for new markets for their business. International operations give companies an opportunity to use their resources more efficiently and simultaneously the internationalization processes increase a firm’s risks and strategic problems. The choice of an international strategy defines a company’s priorities on partnership development, which are necessary for a quicker understanding of new markets’ features, and also for decreasing strategic and commercial business risks. The strategic process is influenced by a number of factors, such as institutional and socio-political, and also business-sector specifics and national culture. Strategy development and implementation together with stable network relations define company’s success in a new market. The paper presents the main results of an empirical research, devoted to analyses of international companies’ strategies and factors, affecting strategic choice and implementation process in the Russian market.

INTRODUCTION

The processes of globalization and information technologies development erase borders between different national markets. In these conditions strategy development and implementation require account of new factors reflecting character of interaction with partners in a network, branch features, distinctions in parameters of business culture and the strategic management on national and foreign markets.

The problem of adjusting the firm-level strategy while entering a foreign market to the cultural peculiarities of the company’s home and foreign cultures has been extensively studied (Barlett and Ghoshal 1995, Ohmae 1990, Prahalad and Hart 2002, Ghemawat 2001). The finding of this research was that international expansion strategy depends on several factors, both pertaining to the international context and company specifics.

Another research question that has been studied is “what occurs after the international strategy has been chosen and a company has already entered a new market?” A number of factors, which influence behavior of companies after entering foreign markets have been identified (Gooldal and Nohria 1993, Harzing and Noorderhaven 2006; Soledad and Mody 2004, Morrison, Ricks and Roth 1991). At the same time, the problem of strategic choice in response to interdependence of different business-cultures has not received appropriate attention in the literature.

One of the basic features of the "new" economy based on knowledge is network relations. These features not only change economic roles, rates, directions and mechanisms of strategic processes implementation. Changes also concern interaction forms between companies.
International inter-firm communications and network relations still, despite its importance, remain behind frameworks of traditional models of strategic and international management. Meanwhile the recent research in this area (Enright 2000, Ricart et al 2004, Hadjikhani et al 2008) gives grounds to assume that the account of socio-cultural and organizational and administrative factors, in particular, informal relations between companies, can have a critical value during strategic decision-making, concerning development and business dealing in foreign markets, geographical position of investment objects, suppliers and clients, creation innovative products, forms of partner agreements.

This article is devoted to the research of strategic processes features (decisions and actions) during business expansion outside national borders. The factors affecting strategic choice of internationalization strategy and organizational forms of its realization, establishment and development partner relations on markets, and also decisions regarding strategic control of international divisions (affiliated companies), are pointed out with respect to strategic context. National, regional, industry and intra-organizational conditions of business are considered as contextual factors.

The main objectives of the research are:

1. To define group of factors, influencing network-level strategy and doing business outside national market
2. To select forms of strategic control used in international companies for management their subsidiaries
3. To determine, what factors affect choice of strategic control form during business expansion on new markets

Objects of the research are Finnish companies, operating in Russia in the construction sector. Mainly they are the diversified companies, running one or several businesses in the Russian market.

LITERATURE REVIEW

Strategic Processes in International Companies

A company involved in global expansion overcomes borders of growth in its domestic country, realizing its competitive advantages abroad, expanding international cooperation and increasing volumes of company’s foreign economic activity. Decisions about internationalization influence all management levels of the company – network, corporate, business – and functional levels (de Witt and Meyer 2005). Two sets of decisions are the most important from a strategic point of view: choice about degree of business operations standardization on foreign markets and organizational form of its international divisions (affiliated companies). Both decisions predetermine the necessary level of centralization, degree of independence of its affiliated companies, including the decision about participation in different networks.

Proceeding from the definition of network as models of mutual relations of firms and institutes, network structure is not only the result of companies’ choice between market, hierarchy or hybrid forms of joint management. It is also rules that drive decisions of firms about cooperation in the certain competitive markets (Kogut 2000). These rules, in turn, are defined by industry features, social norms and institutional factors.

Two basic factors influencing the choice of a company’s international strategy can be defined: the possibility of standardization on the global market and gaining advantages from economy of scope (Yip and Tallman 2009). There are two main alternatives at the ends of the spectrum (with a number of intermediate options in-between) may be examined from the perspective of standardization of company’s operations:

1. Multinational strategy, based on accounting and using of peculiar national features of particular segments of the world market on which the company operates;
2. Globalization Strategy, based on application of standardized approach towards particular segments of the world market on which the company operates with only minor changes in products, services, policies and procedures.

A multinational strategy is based on studying, accounting for and using distinctions of different national markets in consumer preferences, competition, and also specifics of political, legal and social systems and structures. An efficient multinational strategy implementation depends on the level of decentralization providing delegation the rights to make strategic and operative decisions to national enterprises. It allows for accounting for local features in a company’s activity in a more flexible manner. However, growth of various businesses can lead to the loss of the advantages connected with usage economy of scale. A distinctive feature of global strategy is a high level of centralization and interdependence between foreign subdivisions when they implement production and competitive strategies.

In the choice of implementation one of these strategies is based on the company’s decision concerning the degree of core competences’ centralization. This requires the consideration of opportunities for the coordination and management of administrative costs (Morrison, Ricks and Roth 1991).

On the one hand, the strategy of the parent company can be focused on centralization of basic functions in a head office, while delegating some authority to foreign subsidiaries. This approach requires accurate specification, what areas of responsibility need to be delegated to foreign subsidiaries.

On the other hand, the head office can distribute functional areas of responsibility between various countries in such a way that the competitive advantages of each subsidiary can be used in the most effective way. This approach involves the highest administrative costs. Moreover, it requires a high level of complex integration mechanisms and also the sharing and supporting of the same organizational culture in all international divisions of a company.

The international behaviour of companies in the 20th century moves from globalization strategies towards multinational. The fact that now a significant number of companies still uses a globalization strategy can be explained. Globalization processes in the world economy promote a higher level of uniformity of different national markets, which have made economies of scale a more important factor.

The choice of an organizational form of market entry is one of the key strategic decisions within the process of internationalization. In the literature two basic forms of market entry are considered: the creation of a new enterprise (greenfield) or company purchase (acquisition) (Meyer and Estrin 2001). However the transitive form, Brownfield, has also been examined. In this case the parent company buys an operating firm, but then almost completely replaces equipment, personnel and all business processes. After the transformation period material and non-material resources of the absorbed firm, such as brand or organizational culture, are aligned with the corporate strategy of the Head office. The basic difference between Brownfield and acquisition lies in deep re-structuring planned initially and realized according to the general strategy of the company. It is chosen by firms with core competence based on combination of firm-specific international resources with specific local assets.

The choice and realization of an international strategy on a new national market are carried out under the influence of external factors. According to Enright (2002) different levels of factor analysis can be determined: subnational-, national-, clusters-, industry- and firm-level. In this research, we have examined the following factors on the firm-level: strategies, activities, governance structures of firms. Micro- or industry-level drivers include the nature of competition and cooperation in the given industry, policies that are specific to the industry, and skills and capabilities that are specific to an industry. Meso- or cluster-level drivers include inputs such as the linkages between suppliers and buyers; the nature of local demand; Macro- or national-level drivers include macroeconomic conditions, government policies at the national and regional levels, and aspects of society, including goals, interest groups, agendas, and social issues. Meta- or supranational level drivers include
links with other economies outside the nation, the strategies of foreign multinational firms, and (supranational) regional linkages (Enright 2002).

The context reflects not only institutional and cultural features of the country, but also behavior model of players – actors (Ford 1997, Hakansson and Johanson 1992) who are potential participants of a business network of the company. At national level, together with the direct participants – consumer and suppliers, institutes (the financially-credit organizations, trade unions, religious and social institutes, etc.) and state bodies can be referred to actors. Activities of such actors as the World Bank, IMF and European Union, in the field of creation, growing, or in contrast, reductions of integration processes in the world directly influence possibilities to operate abroad.

As a whole strategic choice concerning business operating in a new foreign market, is defined by corporate international strategy of the parent company and its participation in various networks. However, if the company is diversified, it can participate in different business networks, realizing different kinds of international strategy, proceeding from specificity of a certain business. Business expansion assumes an obligatory knowledge and best practice exchange between divisions (affiliated companies) in different countries. It predetermines development of internal networks within the company where constant interaction and resources and information exchange are taking place (Bartlett and Doz 1990, Kogut 1990). An internal network is a set of positions and interactions between subdivisions within one corporation. An external network should be analyzed from a perspective of separate division on foreign market as it is a link between internal and external networks (Figure 4.2.1).

Network development in a new national market depends on many aspects of strategy (corporate, business and functional) of a parent company. Network level strategy is an integrating link (de Witt, Meyer, 2005) that co-ordinates separate elements of strategic process (Figure 4.2.2).
Figure 4.2.2. Network level strategy.

Within one organization it is possible to allocate several networks where it participates. Decisions connected with interaction in a certain network, can be accepted at different levels of management. So, the company as a whole can be a part of one or often more networks. If the organization is diversified, each of its strategic business unit (SBU) can participate in another network. And, at last, some divisions, for example, research and development or marketing departments can develop relations with research institutes or consulting agencies. Therefore network level strategy uniting various networks, has a difficult mobile structure, and communications between external and internal networks influence strategy implementation of all managerial levels.

**Strategic control of subsidiaries out of the national bounds**

There is a strategic contradiction between necessity to have more freedom and flexibility for adaptation to the various national markets conditions and provision of common vision and development of the parent company. It leads to difficulties in coordination and strategic control of foreign divisions.

Strategic control can be implemented through Corporate Centers (CC), which in different markets play different roles. There are many publications, describing and analyzing roles of CC in international company relations. We are basing our further study on the work of Nathaniel Foote, David Hensley, Max Landsberg and Roger Morrison (2008). In their paper “Role of the corporate center” these authors have suggested a set of distinguished roles that CC may play in the international activity of companies. These roles constitute a certain continuum.

On one pole there is the “Financial holding” role. A “financial holding” type company consists of a set of independent business units that have weak communications with the corporate center. In this model the functions of the corporate centre include first of all of the financial control through the tasks of budgeting and careful profit and cash flows management. The role of the CC also includes hiring, performance evaluation and firing unit
managers. Thus a head office does not attempt to co-ordinate activity of business units or to attempt to create any synergism between units.

On the other pole we find so-called “Operator” who usually develops only one line of business, but has some profitable divisions that either work in different regions, or produce different goods. Between these poles there are “Strategic architect” (SA) and “Strategic controller” (SC). Corporate center as a «Strategic architect», realizes two basic functions. First, it generates the general strategy while business units have freedom for development of their own initiatives. Second, it monitors the subsidiaries businesses, periodically initiating discussions concerning general strategy of divisions. The head office as «Strategic controller» focuses on careful and often functional analysis of business units’ strategy and undertakes more efforts in achieving a synergy effect.

The choice of form of strategic control is influenced by set of both internal and external factors (Figure 4.2.3).

First of all, the company, making the decision on the form of strategic control, considering corporate international strategy as a vector of foreign subsidiaries’ development. There are also other significant factors, such as market structure, power distribution between players, and general industry dynamics. However, it is necessary to consider cross-cultural issues as they influence control implementation directly. In practice, it is usually not easy to specify a company as one belonging to the certain type as combined forms are often used. Moreover, forms of strategic control differ across the set of subsidiaries (Filinov, Bek and Vladimirova 2009).

Besides, organizational form and mechanism of strategic control are defined by power and influence of division and its position in the whole business networks (Forsgren and Pahlbereg 1992). Influence possibility is a question of possession the central position with access to resources and to important participants of a network. Both parent company and separate division can possess these resources (Figure 4.2.4).
Figure 4.2.4. Interdependence of parent company and its subsidiary.

If the division possesses the possibility to control resources and takes the central position in a network on a new market, the possibility of its control through hierarchy is limited. Therefore, Head Office, implementing global strategies, can meet serious difficulties connected not only with an external context, but also with intra-organizational factors.

Divisions in different markets can vary their perception of parent company’s strategy. One of the tools, allowing realizing strategic control, is Balanced Scorecard (BSC). BSC can provide control function in such mechanisms as Financial Holding, the Strategic Architect or the Controller.

RESEARCH PROJECT

Project description and objectives

The research was devoted to investigating strategic process specifics in Finnish companies, operating in the Russian market.

Research methodology

The research is based on qualitative and quantitative data analysis methods. Qualitative tools included structured interviews with top and middle management, based on a list of 40 questions covering various aspects of companies’ activities. Internal documents of companies and secondary information (company websites, WEF and WB materials) were used as addition to interview results.

RESEARCH RESULTS AND INDUSTRIAL IMPACT

International strategies and forms of business ownership

The majority of the investigated companies adhere to a multinational strategy. Regionally adapted products are the main characteristic for this type of strategy. The type of business, Russian legislation, and business practice support the choice of the given strategy. However, general quality assurance and following of shared standards are complicated because of the high degree of decentralization of decisions. It is difficult to copy initial partnership models in new national market due to various influences on the companies by industries actors.

According to the parent company strategy, several businesses can enter the same market. It influences the network structure. The researched companies have confirmed that if there is another affiliated company in the same market, it will be in most cases chosen for projects development. The research has shown that companies use typical legal organization forms of development on the Russian market. Some companies buy active businesses. However, the majority of the companies created new affiliated firms for business operations in Russia. Such organizational form as an acquisition was not examined in the considered
companies. Though this form could be the most suitable to form a partnership. On the one hand, there are already established relations with suppliers, consumers and the third parties, and on the other, the introduction of new rules and procedures from the parent company allows implementing global international strategy.

**Factors, influencing network-level strategy and doing business outside national market**

Firstly, it is possible to define distinctions in the institutional and social environment in Finland and Russia among a group of factors influencing strategy choice of partnership. The economy of Russia and Finland differs in many parameters. Technological development, dynamical integration in global processes and preservation of national interests allow Finland to be considered as an information society. Key features of such a society are knowledge generation through information technologies, occurrence of network relations in various branches, development of infrastructure for effective network processes (Castells 2002). The Russian economy is still at the stage of industrial society. Traditional market mechanisms and more rigid organizational structures, are still strong within this economy.

Rules of the game within the market in many cases are defined by existing institutional mechanisms along with level of economic relations development. It is possible to make a conclusion that the most significant parameters of doing business in Russia and Finland differ. According to World Bank and IFC Finland is in 14th place in the rating "Doing Business" (https://russian.doingbusiness.org), while Russia is 120th. It is much easier to get permission to start a business in Finland than in Russia (43 place against 180). International trade possibilities in Russia are strongly limited in comparison with Finland (4 and 161 place respectively). (Figure 4.2.5)

Thus, the economies of Finland and Russia represent different economic models. This means that companies entering the Russian market need to change strategic management and adapt it to new conditions of doing business. However, the research has shown that not all companies are ready for radical changes of already developed business processes and management mechanisms.

Partnership strategies are defined not only by political and cultural features of the whole country, but also of a certain region. Complexity of defining unique dimensions for
one country according to the model of Hofstede (Individualism, Power Distance, Masculinity, and Uncertainty Avoidance) is shown in the latest research. Different regions in Russia are characterised by essential distinctions of business culture parameters, which are defined by level of social and economic development. For example, considering PDI and IDV parameters, Stavropol is close to culture of India, Tula to Argentina and Japan, and Tyumen to Canada and to the Netherlands (Latov, Latova 2007).

Distinctions in economic values involve differences in partner’s behaviour in the market. Finnish companies are in a greater degree focused on the business mutual relations based on trust without drawing up detailed contracts in the beginning of joint activity. Russian firms aspire to the maximum detailed elaboration of possible parameters and regulation of joint activity before a project begins. Probably, it is the consequences of negative experience of cooperation at an the original stage of market development in Russia. All investigated companies stated that they put essential accent on relations with governance, developing partnership strategy. A high level of corruption and economic crimes, especially in the building sector, cramp the development of normal partner relations. This aspect is represented in much foreign and domestic research, and was marked by respondents. Prevalence of shadow operations is largely caused by parameters of national culture of the country. As Latov and Latova (2007) have shown prevalence of corruption relations positively depends on an individualism index and negative on power distance index.

A low standard of living and considerable social inequality are characteristics of many Russian regions. Big cities in the European part of the country grow at a fast rate due to the low standard of living of rural population. It can be considered as the positive tendency for construction sector as demand for real estate, both residential and commercial, is growing. It is especially appreciable in cities-millionaires (St.Petersburg, Nizhni Novgorod, Ekaterinburg) though the crisis has slowed down this growth approximately for 3 years, according to the experts. At the same time, similar stratification of the society complicates market segmentation. It especially affects the companies focused on residential building in the middle-segment.

Thus, the choice of partnership strategy in a new market depends not only on the national context, but also on specific characteristics of regions. It means that business rules should correspond to specific institutional and socio-cultural factors of the concrete region. However, research has shown that almost no respondents consider specificity of separate cities when speaking about cultural features.

It is difficult to copy the Finnish model of partnership relations on Russian market also due to legislative factors. If clients are unitary enterprises, business operations get under legislation concerning state purchases (Federal Law from July, 12th, 2005 94-FZ «About orders placing for deliveries of goods, works and services performance for state and municipal needs»). Besides, municipal authorities participate in process of acceptance the important decisions concerning subcontractors. Therefore, the range of partners’ choice in this case is limited at the first stage of relations.

Business specifics influence development of partner relations and business dealing outside of the national market along with socio-cultural and institutional contextual factors. The investigated companies operate in construction sector. They can be divided to four market segments, proceeding from features of the business: industrial and ecological services, lifting equipment, construction materials retail and residential construction.

**Environmental and industrial services**

The Russian market may be described in the following terms. While in the US and Western Europe the interest of enterprises and organizations in environmental certification is high, as it is a tool for gaining leadership in markets, Russian companies do not have a significant stimulus to acquire environmental certification of their production systems. The environmental legislation in Russia differs substantially from that in EU countries. In Russia, the business of environment protection is concentrated basically in big cities and there are different rules in each region.
Consumers are often municipal authorities, housing companies, and large construction companies. Subcontractors (suppliers) influence the quality of providing services. It is difficult in comparison with Finland to find private businessmen rendering ecological quality services in Russia. That is why the network configuration changes. The companies in the given market are forced to join subcontractors in the structure. Input barriers on the market are in personal contacts with municipal authorities. Therefore, partnership strategy is directed on the creation of stable relations with clients. The existing competition occurs basically with the state (unitary) enterprises or their affiliated organizations.

**Lifting equipment**

It is the Business-to-Business sector where each client makes certain demands, proceeding from specificity of its business. The number of suppliers, influencing terms and quality of work, is also limited. Basically, suppliers are other branches of a parent company. High initial investments protect the market from new competitors, and competition intensity is affected by the parent company brand. Consumers possess major market force. Therefore, the companies aspire to assist consumers in technical project designing, and also to support communication with them after services rendering. Accordingly, partnership strategy is focused on client development and on joint projects creation.

**Construction**

Customers of companies specializing in residential construction are basically large Russian and foreign companies. It is possible to allocate companies selling construction materials as suppliers and subcontractors, performing design work. The Russian sector of residential construction is strongly fragmented and approximately 100 000 companies operate in it. As diversification of the companies in other business is complicated, the branch has a strategic character for many players. In spite of the fact that officially input barriers on the market are not too high, companies need to establish communication with various municipalities to start business in this segment in Russia.

**Construction retail**

This segment is characterized by suppliers who offer wide assortment of goods along with weak segmentation between them. The scale effect is an input barrier on the market, but it cannot constrain growing competition. Therefore, there is a tough competitive struggle between existing players, in spite of the significant amount of consumers. Contracts make the basis of market relations in such conditions. The retail companies are not ready, as the research has shown, to build long-term partner relations neither with clients, nor with suppliers

We have defined the key factors influencing the companies, operating on these markets, using expert estimations added with materials of DATAMonitor group. The diagram reflects key differences of segments within the limits of the construction sector (Figure 4.2.6).
There is a common feature for the construction sector – business processes management within different projects. Alliances of companies in the construction sector have more likely short-term character and change depending on number of simultaneously realized projects and stage of the concrete project. Developing the project companies are limited by the project purposes, its resources and interests of their stakeholders. The system of tenders regulates various aspects of agreements between partners. Within the limits of one project, not only partners from current network can be involved, but also time-basis participants. The process of interaction between participants can be divided into two stages: project development and realization. The choice of participants in a certain project, including partners from the existing network, occurs at the first stage. And it is extremely difficult to change the structure of participants in the project at the second stage.

Not all patricians need to be involved in solving problems of the specific project even though there are stable relations with them. Connection between possible actors, network and projects is presented in Figure 4.2.7.
Forms of strategic control

International strategy of a Finnish parent company and its organizational form influence the strategic control of Russian subsidiaries, and the CC takes some of the roles in line with them. On the one side, there is a Financial holding, which consists of separate business entities with very weak links to their parent company. Functions of the corporate center include financial control over budgeting, strict audit of profit and cash flow development. At the same time the head office does not try to control the activities of business units or search for synergetic effects.

On the other side, there is the Operator who usually develops only one business line, but has several profitable departments, which either work in different regions, or produce different products. The Operator heads the development and realization of strategies in departments.

Analysis of forms and mechanisms of strategic control indicates that the observed companies do not use such forms as Financial holding or Operator. Corporate centers of the companies act in line with models Strategic architect and Strategic controller. Interestingly, almost all the companies show the presence of mixed form of strategic control, which includes features of both models, where Corporate Centers are responsible for the following functions:

- Define strategic vision of corporation and direction for business units to act
- Approve key strategic decisions, based on synergy principles
- Approve offered investment decisions after their functional and commercial value analysis (in two companies)
- Periodically (in most companies - quarterly) analyses key financial, operational and strategic indicators.
- Establishes the main principles of financial and HR policies and business processes
- Maintains shared purchase centers, which allow gaining economies of scale.

However, typical models of corporate centers do not allow the consideration of the specifics of strategic control in project oriented organizations. Strategic control in such organizations contains more than defining the centralization\decentralization degree, but also includes specifics of controls over joint development projects. The Balanced Scorecard represents one of solutions to this issue.
There is no common opinion on the applicability of BSC in Russia. On the one hand, it promotes development of managerial skills of the Russian partners, on the other – it does not always correspond to requirements of the fast-growing Russian market.

In Russian practice, BSC is considered not as a complex managerial technology, but only as a tool of strategy implementation, which will be effective under certain circumstances. That is why BSC, developed by the Finnish company, can work incorrectly and inefficiently when projected on Russian business. Among key characteristics of Russian business, the following factors can be pointed out:

- Business-processes non-transparency
- Lower, rather than in the West, environment predictability
- Low (in comparison with the West) liquidity of non-material assets. Insufficient development of laws in the field of intellectual property protection
- Low opportunity and desire of top-managers to delegate authority in a company.
- It was found that among the observed companies only one has been using BSC, but only for defining goals and control measures of those goals achievement.

**Implementation and exploitation**

Major features of strategic process in Finnish development industry companies, active at Russian market, can be highlighted, based on the research results (Figure 4.2.8).

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
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<tbody>
<tr>
<td><strong>International strategy</strong></td>
<td>Multinational</td>
<td>Multinational</td>
<td>Multinational</td>
<td>Global</td>
</tr>
<tr>
<td><strong>Form of strategic control</strong></td>
<td>Strategic Controller</td>
<td>Strategic Architect</td>
<td>Strategic Controller</td>
<td>Strategic Controller</td>
</tr>
<tr>
<td><strong>Partners relations</strong></td>
<td>GR and relations with subcontractors</td>
<td>GR and consumers</td>
<td>Joint projects, customers’ development</td>
<td>With suppliers</td>
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</table>

Figure 4.2.8. Characteristics of the companies’ strategic processes.

During the research critical external factor, affecting the partnership building tendencies, were found. Analysis of strategic context has shown that Russian market provides the mix of great opportunities and great sufficient risks. That is why it is crucial to establish strong relations with local government structures, subcontractors and corporate clients at the stage of Russian market penetration. These ideas were supported by interview results. These companies named consumers, suppliers and subcontractors among potential network participants. However, we consider several other actors to be important: research centers, major influential nonprofit organizations. Many respondents emphasized their parent companies as the network members. Its influence on the network position of subsidiaries contains access to financial resources and corporate brand.
Analysis of companies’ strategic processes has revealed that decisions about network relations had a tactical characteristic, and these decisions were not always aligned with corporate strategies of parent companies. The Finnish companies are focused mostly on dual relations but are not ready to develop a network. Some companies aspire to being a part of clients’ processes, developing their own business. But in most cases, such claims are not considered in corporate company strategy.

CONCLUSIONS

This research allows us to draw the following conclusions about the strategic process of the Finnish construction companies, building networks in Russia. Specific regional characteristics (infrastructure development, business-culture) and experience of partnering relations affect the choice and realization of business strategies at new foreign markets as well as common institutional and cultural features of a country.

The network structure in foreign markets depends on context factors as well as on the fact if other business units of the company enter this market. Affiliated companies, composing internal network, influence priorities in business relations.

Many companies agreed that stable partnerships within development projects support partners in times of financial instabilities. But almost none of them give any help in case of partners’ problems.

Project orientation of business of the studied companies limits the choice of clients and suppliers after project launch. Moreover, partner choice at new national markets depends on chosen form of strategic control. Strategic control of researched companies is carried out according to models Strategic Architect and Strategic Controller. Models of Financial holding and operator were not found among them. Forms of strategic control are specific for a project-oriented organization and expand its functions above the limits of strategic control typical models. Strategic control of such companies is defined by specifics of a control organization within joint development projects.

Thus, strategic decisions about different aspect of company’ internationalization depend on various factors. But none of them is taken into account while entering Russian market. Moreover, network relations are in the initial stage. But it could be the most applicable form of doing business in the context of rapid changes in the Russian economy.

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4.3 Decision making (Filinov)

Introduction and State of Art in Finland/Russia

We assume that one of the substantial elements creating difficulties for Finnish companies when entering Russian markets and establishing partnerships with Russian authorities, suppliers, consumers etc. (i.e. networking) is the difference in approaches to decision-making (DM) in Finland and Russia. Such differences are usually described in literature using the notions of company culture, DM procedures and patterns, and dominant DM styles. Thus, our research focuses on business culture, DM procedures and patterns, the dominant DM styles of Russian and Finnish managers/companies and their respective differences. Characteristics of the DM process include both hard (documented procedures, rules and regulations) and soft (the attitudes and preferences of managers involved in DM) features.

Differences in dominant DM styles influence the applicability and effectiveness of managerial procedures, along with the differences in economic situation, technical infrastructure and social environment. Selecting DM specific features as a focus is however justified by at least two considerations. First, differences in the social, technical and economic environment in which a Finnish company operates in its domestic market and in Russia are relevant for our analysis to the extent to which they affect its operations and this influence occurs through the decisions taken by the Finnish company and its Russian counterparts. So, the dominant DM style and patterns mediate the influence of all other factors. Second, DM is perceived as a highly personal act. Consequently, if a manager feels uncomfortable with the way it is carried out, this affects mutual trust, creates stress and tensions and thus inhibits the process of DM and deteriorates the quality of the decisions selected in the most direct way.

This approach involves, however, differentiating between characteristics (style) of management and characteristics (style) of decision-making. If we go into further detail, this takes us to the much broader and more sophisticated problem of the contents of management functions. Selecting DM specific features as a focus is however justified by at least two considerations. First, differences in the social, technical and economic environment in which a Finnish company operates in its domestic market and in Russia are relevant for our analysis to the extent to which they affect its operations and this influence occurs through the decisions taken by the Finnish company and its Russian counterparts. So, the dominant DM style and patterns mediate the influence of all other factors. Second, DM is perceived as a highly personal act. Consequently, if a manager feels uncomfortable with the way it is carried out, this affects mutual trust, creates stress and tensions and thus inhibits the process of DM and deteriorates the quality of the decisions selected in the most direct way.

This approach involves, however, differentiating between characteristics (style) of management and characteristics (style) of decision-making. If we go into further detail, this takes us to the much broader and more sophisticated problem of the contents of management functions. It appears evident that decision-making is only one of them, and consequently the style of management and the style of decision-making relate to each other as a part and a whole. The style of decision-making should be regarded as an element of management style in line with such other elements as communication style. Moreover, all these are highly interdependent and problems may arise if there is insufficient fit among them. In spite of this, in numerous publications the notions of decision-making style and management style are sometimes used either interchangeably, or decision-making style as an especially important and explicit function is regarded as a proxy for the style of management. A manager’s DM style is not necessarily equivalent to his style of management as far as it pertains to only one (although important) side of the manager’s activity.

The literature and the authors' own research suggest that DM features demonstrate considerable differences across national borders. Consequently, we have to expect differences in dominant DM styles between Russian and Finnish managers. These differences have to be identified, as it is not sufficient to know that they are different. In order to come up with explanations for the existing difficulties of Finnish companies in Russia, it is necessary to understand what exactly is different and to what extent.

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In sum, the suggested view of the subject of study in this research is presented in Figure 4.3.1.

![Diagram](image)

Figure 4.3.1. Relations between different notions of “individual style” in the managerial context.

**Methods**

Based on literature review and an attempt to select features directly related to and affecting the DM process we come up with the following list of characteristics.

Input characteristics include:
- Amount and form of information which decision-maker prefers to obtain.

Process characteristics include:
- Perceived organizational goal
- Priority given to (Result vs. Process)
- Time reference (Future vs. Present)
- Local/global focus
- Basic needs
- Dominant criterion for selecting course of action
- Attitude towards risk
- Tolerance of ambiguity
- Nature of preferred decision-making process (Structured vs. Unstructured)
- Focus in search for options (Optimal option vs. Acceptable option)
- Preference to rely upon logical analysis or practical experience
- Speed of decision-making
- Employees’ involvement in DM process.

Output is characterized by:
How the result of the DM process, the selected option, is treated: whether we stick to a single option and insist on its implementation, or alternatively, we regard our choice as a fuzzy indication of the course of action that needs to be adapted as circumstances change and new information appears.

Methods for the identification of DM features considered in the literature include direct observation as well as qualitative and quantitative questionnaires. We consider the application of a DSI questionnaire developed by A.J. Rowe et al. as a quantitative tool. For the qualitative analysis we have come up with the following set of questions:

Figure 4.3.1 Consider a business decision which has to be made on a regular basis. Please, provide the following information:

a. How often is it necessary to make the decision in question?
b. Is there a formally adopted (may be written) procedure in place related to this type of decision?
c. Is it necessary to come up with decision alternatives every time you make this decision or are the options basically the same every time and there is no need to re-invent them?
d. Describe the decision-making process.
e. Do you make the decision personally or do you involve your subordinates?
f. In case you involve them, why do you do that: in order to get information they possess or in order to secure their support (buy in) for the decision made or in order to develop their potential?
g. Is information distribution among your subordinates more or less symmetrical?
h. Is a conflict possible among your subordinates arising from the decision in question?
i. Do they generally share your goals and approaches?

Figure 4.3.2 What difficulties do you experience when making decisions dealing with your business partners?

a. Is the necessary information provided on time?
b. Is it accurate enough?
c. How do you decide on the amount of information you provide to your partners?
d. Are the position and aspirations of your partners clear, stable and understandable?
e. Do they keep their promises?

The rationale behind section 4.3.1 is to get a set of examples (cases) based on which it will be possible to assess the DM process used and compare it with the one theoretically recommended for the described situation (for example, based on V. Vroom's methodology, or on the ideas of P. Hersey, K. Blanchard and W. Natemeyer).

The rationale behind section 4.3.2. is to create a general description of DM problems related to business partners (network members).

5 Situational Leadership, Perception, and the Impact of Power PAUL HERSEY; KE NNETH H BLANCHARD; WALTER E NATEMEYER Group & Organization Studies (pre-1986); Dec 1979; 4, 4; ABI/INFORM Global pg. 418
Results so far, dimensions to be observed in Finland and Russia

The results obtained through the pilot interviews with a number of employees of a case company are mixed. On the one hand, the questions proved to be understandable for managers. On the other, the interview was found too time consuming.

The interviews held so far create the impression that the level of subordinates’ involvement in DM at the case company is moderate. Few cases show a level of employee participation less than that recommended by normative theories. The development of employees' potential through involvement in the DM process is not regarded as a priority. But all these conclusions need to be re-tested with a wider data base.

It was very disappointing to know that the case company did not agree to work with quantitative tools and thus we are limited in our use of research instruments.

Discussion and research plan

The research plan includes further testing of the developed questionnaire and the possible application of two quantitative tools: the Decision Style Inventory (DSI) and the Power Perception Profile developed by Paul Hersey and Walter E. Natemeyer.
5. Customer perspective and marketing (P5)

5.1 Developing Marketing for the Stroi-Network (Tretyak, Buzulukova, Rozhkov, Popov)

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ABSTRACT

A key marketing concept of customer orientation has been recently applied by several researchers to interfirm chains and networks. They argued that, by collaborating for greater customer orientation, firms can achieve gains in performance and competitiveness. Hence, it is important to know what makes an interfirm network customer oriented, and how to implement it. However, certain market/economic conditions both restrain adoption of customer orientation and make it irrelevant. This is especially true when 'transition countries', such as Russia, are concerned, and in times of economic crises. In this chapter we investigate how Finland-based construction and related sector companies manage market relationships in Russia, how they cope with difficulties and grasp opportunities. We propose a framework of customer-oriented interfirm network and demonstrate its application for managing relationships and networks in construction sector.

INTRODUCTION

Since summer 2008 the Russian construction sector bubble has been suspended. Simultaneous decrease of demand on industrial property and shrinking supply of finance forced construction companies, homeware retailers, as well as their suppliers to seek for help from the official powers. Some of the companies went out of business or started mass layoffs and froze their ambitious projects, others had to make concessions to customers. As time passed, the market power of construction companies declined, and a need to take customers’ wants into account was being acknowledged more and more. Still, the market players – large construction firms and developers – dominated the market at least since year 2001. What should they do to become customer-oriented companies, and to introduce customer orientation philosophy to their supply chains?

This chapter outlines the results of “Perspective 5: Marketing”, the marketing component of the STROI-network project studying Finnish construction sector firms, as well as related services and industrial firms in Russia. Given the research task, the research activities were organized into four stages: (1) Setting up the theoretical framework, (2) Studying relationship facet of network customer orientation, (3) Studying network development and (4) Studying risks (see Figure 5.1.1).
The theoretical framework is presented at the start of the next section. It addresses two main questions: (1) what is a customer-oriented interfirm network, and (2) how to differentiate high and low levels of customer orientation.

The progress towards the final goal was not sequential but interactive, and required cyclical oscillations from data to theory. Researchers studied four relationship marketing issues: customer relationship management, purchasing, market entry strategies and interfirm trust. Each of them relied on the set of concepts relevant to the issues in question; however they studied the same companies together.

The narration in this chapter is structured according to these topics, except for the study of risks covered in a separate paper by Marina Weck. Subsequent sections outline literature review, the research project and the summary of findings. Finally, conclusions include implications for practitioners and avenues/proposals for further research.

**LITERATURE REVIEW**

Marketing is commonly associated with the “4Ps” – the marketing mix approach. The marketing’s “4Ps” are Product, Price, Place and Promotion – these constitute the four pillars of what is called ‘transactional paradigm’ of marketing, and form the long-recognized classical foundation for the practice of marketing management. However, not all companies were quite satisfied with this approach, and at least since 1980-s several new perspectives on marketing, collectively referred to as ‘relationship marketing’, started to gain academic recognition and practical importance. It is commonly agreed now that b2b relationships should be systematically established, maintained and enhanced, and that together they form an interconnected set of relationships – an interfirm network.

At the same time there emerged another set of concepts called ‘market orientation’ – these were considered to be various operationalizations of the marketing management approach. Market orientation (MO) was theorized as a special capability, or as a type of strategy. It was represented as a combination of customer orientation and competitor orientation, responsive MO and proactive MO, market-driven and market driving approaches.
In the frame of the STROI-network project the expected outcome of the “Perspective 5: Marketing” research was to propose specific steps for an interfirm network to become customer oriented. So customer orientation was the main focus of this research (see Figure 5.1.2).

Figure 2. The research focus.

Of course, the first and foremost research question is to define a customer oriented interfirm network, i.e. to specify some constructive model of what it is, to propose its constituent pillars, factors that influence the degree of customer orientation, and some ways for a network to improve it. The literature is not silent about what a customer oriented network is. Several approaches have been elaborated, but none of them is all-encompassing, sufficiently tested and completely convincing. The results of the literature review suggest that network properties and relationship properties may influence the degree of customer orientation (Elg, 2002; Grunert et al., 2005; McFarland, Bloodgood and Payan, 2008; de Treville, Shapiro and Hameri, 2004), provide evidence in support of two levels in a framework of interfirm customer orientation: infrastructural and behavioral (Jeong and Hong, 2007), as well as three (or more) components of such framework, including managing information, control, material and financial flows; managing conflicts, collaboration structures and interfirm working relationships; influencing mental models and coordinating technology (Flint, 2004; Jüttner, Christopher and Baker, 2007).

Based on literature review and company observations (including those from STROI-network project), a framework of market-oriented network was proposed (see Tretyak, Rozhkov and Popov, 2009; see Figure 5.1.3). The framework includes three pillars: knowledge sharing, joint planning and established control structures.

It is composed of two levels: “Routines and processes” and “Systems and structures”. The first level components reflect joint actions, each of which can be supported by certain joint infrastructure. This infrastructure forms the second level. Prominent examples exist in business practice.
Developing marketing for the STROI-network. Report for Perspective 5: Marketing

Figure 3. The preliminary framework of market-oriented interfirm network.

![Diagram of market-oriented interfirm network]

Figure 5.1.3. The preliminary framework of market-oriented interfirm network.

The three pillars are interconnected. The first pillar encompasses processes for market knowledge sharing, including customer and competitor knowledge, and supporting interfirm information systems. Knowledge exchange is of course not a thing in itself. Firms may jointly use common knowledge to plan joint adaptations and coordinate their business processes. This is reflected in the second pillar – cross-firm planning of such processes, including CRM, SCM and NPD, that is supported by structures that may be jointly created by firms to support collaboration in the network. Finally, planning is not enough to fuel market orientation in a network. It is recognized that people should be motivated and that control based on power structures and shared values (fruitful relationship atmosphere or culture) should be established. Still, it is important to note at this point that although the framework is proposed to describe market orientation in general, it is particularly suitable to customer orientation. The extent to which it applies to competitor orientation is subject to further investigations.

Next, there should be some method to evaluate network-level customer orientation for a given interfirm network. No such method was found in relevant literature. Thus, a simple method for evaluating the extent of customer orientation is proposed here. It is based on the idea that any business organization has three important goals: creating business value for all stakeholders, sustaining and developing competitive advantage and coping with uncertainty. Any impact of the business activities, including management of customer relations, can be judged by the contribution to these main business goals, whereas the goals can be attributed to a network. It is proposed here to consider three distinctive levels of customer orientation based on each goal: ‘risk management’, ‘cost management’ and ‘value creation’ (see Figure 5.1.4).
It is also very important whether the company is reactively or proactively oriented towards the market. This kind of orientation defines the way how external information is collected and handled, so it is assumed that the proactive approach corresponds to higher levels of customer orientation. The main idea is that the reactive approach does not provide sufficient information basis for decision making in all areas listed above (value, risks and costs). The proactive approach suggests not only reaction towards some external impact but also certain market actions development and implementation.

The basic level of customer orientation in the model, ‘cost management’, suggests use of customer data for cost management. The ways to decrease cost include cutting direct marketing and customer attraction cost, rejecting unprofitable customers, as well as optimizing product range on the basis of knowledge of customer preferences. This level of customer orientation can be referred to as proactive, as the company, besides customers’ data collection, actively uses it for business optimization. In case of reactive orientation the company would be unable to “manage” the process, and it results into random ‘cost-cutting’.

At the next level, companies can gather important information on current and future demand dynamics through collecting and analyzing customer data. In case of reactive approach market information is not sufficient for effective risk management; it can be used only for uncertainty avoidance. In case of proactive approach it is possible to assess customer satisfaction levels and make certain loyalty estimates. It is also possible to get indirect data on competitor activities and how their product and service quality is perceived by the customers. By doing this, companies would increase confidence in the business environment, thus lowering potential risks from rapid demand decreases and substantial numbers of disloyal customers. These customer management activities refer to the basic level of customer orientation judged by the results achieved (influence on competitive advantage and value of business). It is also important to note that activities listed above refer to high levels of customer orientation in existing models (cf. Kohli and Jaworsky, 1990), leading to minimal output.

Finally, the ‘value creation’ type of customer orientation is the most productive by the criteria of value for business and competitive advantage. Beyond risk and cost management, companies are focused on new value creation which is very demanding to rela-
tionship quality. In case of the reactive approach the company would be unable to manage customer relations systematically. So the goal would be extensive market share growth based on price discounts, etc.

In the subsequent sections we present analysis of the literature showing how the concept was elaborated to include relationship and network development facets.

**Relationship facet: CRM and customer relationship development**

Day and Van den Bulte (2002) define customer relationship management (CRM) as a multi-functional process of setting and sustaining customer relations through all possible channels including an individualized approach to the most valuable customers to increase customer loyalty and to boost marketing efficiency. They admit that customer relationship development is a process that involves different functional areas in the company as well as beyond. CRM as a business strategy is aimed at customer value development through sustaining effective relations.

Customer orientation is one of the basic ideas of marketing, but it has not been studied well until 1990-s. In fact the first attempts of in-depth analysis were taken in services marketing (cf. Saxe and Weitz, 1982).

We conducted an extensive literature review on relationship development models (including Arndt, 1979; Eggert, Ulaga and Schultz, 2006; Heide, 1994; Johanson and Mattsson, 1987). In their widely cited paper, Dwyer et al. (1987) suggested a relationship development model containing four interrelated phases: awareness, exploration, expansion, and commitment. Proponents argued that these relationship phases can be used to explain various aspects of exchange and behavior of the sides, and that these phases are also characterized by various effects changing over time (Dwyer et al., 1987; Wilson, 1995).

In the awareness phase, buyers compile a list of potential partners (suppliers) with whom they may settle business. In the exploration phase, buyers begin to negotiate contract terms, set product specifications, and place small orders to determine if their new partner is trustworthy. In the expansion phase, buying firms make multiple purchases from suppliers or negotiate long-term contracts, and try to get benefits from current exchange partners rather than from alternate suppliers. In the commitment phase, both buyers and sellers implicitly or explicitly pledge to establish stable relationships. They express a readiness to make sacrifices to maintain their relationships and a confidence in the continuity of the relationships. Some authors (cf. Scanzioni, 1979) tend to regard the end of relations or dissolution as a separate step. Probably its analysis could give an insight on the reasons of the breakup preceded by the commitment stage.

In addition to this we conducted a literature review on customer value creation levels. It is proposed (Henneberg, Pardo, Mouzas and Naudé, 2005; Möller, 2006) that customer value should be disaggregated into three basic elements: exchange value, relational value, and proprietary value. Exchange value refers to the benefits embedded in the offering and can be named ‘relative’ as it is compared to the offerings of the competitors (Möller and Törroinen, 2003). Suppliers can try to increase the perceived offering value by providing extended services for the initial core offering (Möller, 2006). Relational value is created through the relationship itself. It can be some new product development activities that involve customers as well as other business processes enhancing the efficiency of the supplier–customer relationship. Proprietary value (Henneberg et al., 2005) refers to the value which is created and appropriated by a company entirely for its own benefit.

We also conducted a literature review on CRM tools and instruments, represented with information technologies (IT) in fields of communication, data analysis and exchange as well as strategic level IT, and different levels of implementation. In general, CRM concept
includes the full range of customer relations tools from customer strategies to everyday communication instruments, such as call-centers.

CRM consists of four dimensions (Kracklauer, Mills and Seifert, 2004; Parvatiyar and Sheth, 2001; Swift, 2001): Customer Identification, Customer Attraction, Customer Retention and Customer Development. CRM toolkit includes methods and techniques for each of these dimensions. Customer Identification dimension includes target customer analysis and customer segmentation (cf. Freytag and Clarke, 2001). Customer Attraction dimension contains various direct marketing tools and channels, while Customer Retention refers to loyalty programs (cf. Reichheld, 1996; Meyer-Waarden, 2007) and complaint management (cf. Maxham and Netemeyer, 2002). Finally, Customer Development involves customer lifetime value (CLV) analysis and cross/up selling as well as portfolio analysis (Campbell and Cunningham, 1983; Fiocca, 1982; Gök, 2009). Some of the instruments listed above can be used on two stages and some of them are important for the dimension of customer relations. For example the ability to have a dialogue across all customer contact points is an essential ingredient of CRM (McKenzie, 2001; Peppers and Rogers 1997; Imhoff, Loftis and Geiger, 2001).

In 2000-s, CRM turned into a buzzword and became confused with (or reduced to) CRM IT solutions which represent a bundle of IT tools for customer data processing and feedback. These IT solutions basically include three main blocks. The first is analytical, that includes software for multidimensional analysis of customer data, customer intelligence and forecasting. The second block (operational) represents front-office workplace automation. The third block is collaboration and refers to on-line buyer-seller communication and coordination tools.

According to the literature, CRM is extensively used by companies nowadays, and the failures mainly cause from implementation of IT solutions without due underlying marketing concepts.

**Relationship facet: Purchasing and customer orientation**

According to marketing literature, firm’s ability to adapt its own products and processes to customer needs and wants depends on its customer/market orientation level. Whatever definition is employed, market orientation has been recognized among the most important drivers of performance and competitiveness (cf. Kohli and Jaworski, 1990; Narver and Slater, 1990).

In recent decades, many large firms gradually disintegrated themselves through outsourcing and downsizing, and value chains turned into value networks. Today competition is said to take place more and more between alliances and networks of firms, rather than between individual firms (cf. Gomes-Casseres, 1996; Achrol and Kotler, 1999). In the construction industry numerous specialist subcontractors are available for everything: from designing interiors to cleaning up construction site, to lending construction equipment, and 'quasifirm'-like organization is a well-known industry issue (Eccles, 1981; Niemi, 1987).

When demand is suddenly changing, such as during the recent construction bust in Russia, companies in networks not only have to redesign their own operations: they have to require subsequent reorganization from existing suppliers, or search for new ones. They have to translate customer needs into new purchasing requirements and re-engineer control for quality and delivery of supply. However, some existing relationships may restrain firms’ discretion to implement changes on the supply side and are said to undermine its flexibility.

Naturally, some chains are more flexible than the others: they can absorb more changes in a shorter time. SCM scholars successfully explained why they are so flexible, and introduced a concept of agile supply chain (cf. Christopher, 2000). However, the notions of
customer needs and market orientation did not fit into this concept (cf. Rainbird, 2004), and at this point marketing and SCM research streams should have been bridged.

Recent studies consider customer orientation as interfirm process in SCM (Jeong and Hong, 2007) and explore interfirm market orientation in marketing channels (Elg, 2002), propose integration of SCM with marketing (cf. Heikkilä, 2002; Jüttner, Christopher and Baker, 2007; Min and Mentzer, 2000) and call for coordinated and joint efforts by all participating firms to install market-oriented approach across the whole network (Grunert et al., 2005). On the level of chain or network, the concept of market orientation encompassed both marketing and purchasing.

One might raise doubts if being market oriented is a one-size-fits-all strategy. Indeed, a continuum of marketing strategies is used by firms to achieve fit with different market situations. Some local market contexts favor more simple production-oriented approaches: a growing and under-served market provides good chances to sell even with minimal knowledge of customer needs. But in these cases the evidence of fit between marketing and purchasing was again acknowledged by scholars.

Evidence of marketing-purchasing connection comes from both marketing and SCM scholars. For example, in SCM literature it was shown that supply chains operating on relatively stable markets or delivering excess functionality implement lean supply strategy as opposed to the one designed for market responsiveness, since cost minimization imperative is more important than flexibility imperative. In the same vein, where certain competitive situations give rise to firms employing market-driving strategies (as opposed to market-driven ones), it was noted that ‘soft power’ (training, binding, etc.) is extensively used by such firms in managing supply relationships (Jaworski, Kohli and Sahay, 2000; Kumar, Scheer and Kotler, 2000; Tuominen, Rajala and Möller, 2004). To conclude, a relation between marketing strategy and purchasing (supply chain) strategy is established in literature.

To bring market orientation to the network level, definitions for interfirm market orientation (iMO) and market-oriented interfirm network have been formulated. Based on literature review (including Flint, 2004; McFarland, Bloodgood and Payan, 2008; de Treville, Shapiro and Hameri, 2004), especially demand chain management (DCM) approach, and company observations, mainly from the STROI-network project, a framework of market-oriented network was proposed: (1) Market knowledge sharing and supporting interfirm information systems; (2) Motivation and control for market orientation supported by control structures as well as by shared values; (3) Cross-firm planning supported by network collaboration structures (see Tretyak, Rozhkov, Popov, 2009; see above in this chapter).

In the marketing literature, special scales are used to measure market orientation. There are various scales measuring an individual firm’s market orientation (for an extensive review of these see Rozhkov, 2008). But for a number of reasons the network’s level of market orientation cannot be equated with market orientation level of any of its single members, neither the central/largest one, nor the closest to final customers. To measure market orientation at the network level one should somehow aggregate all its participants’ individual measures. In turn, such measurement procedure would be difficult to implement in practice, so a more simple system applicable to whole network seems to be valuable to practitioners. For the purpose of this research, supply relations of companies studied were classified according to researchers’ evaluations into two groups (‘high iMO’ and ‘low iMO’) in line with the proposed concept.

Next, the relation between iMO and purchasing was studied. A literature review on the relation between market orientation and purchasing (including Childerhouse, Aitken and Towill, 2002; Corsten and Kumar, 2005; Cox, Chicksand and Yang, 2007; Morash, Dröge and Vickery, 1996) did not provide a list of specific purchasing practices catalyzing iMO, but it suggested a list of supplier’s traits that hinder it. These include supplier’s disregard/unawareness of the final customer’s needs, knowledge sharing hostility, low absorptive
capacity, poor purchasing capabilities, and over-dependence from other buyers. Since ifMO requires a certain degree of internal and external integration of marketing and purchasing, other barriers to ifMO include the failure to establish interfunctional coordination between relevant departments, and high personnel turnover on the buyer-seller interface. Also, there is no reason to speculate about ifMO in the case of arm’s length relationships between buyers and suppliers. To summarize, three types of purchasing practices that counter ifMO were identified: (1) functional isolation of purchasing, (2) buying from ‘inappropriate’ suppliers (with traits that hinder ifMO), and (3) failing to establish the minimum necessary level of collaboration with suppliers.

**Network development facet: building long-term relationships in networks**

As far as the process of relationship development is concerned, the theoretical background relies on the concept of relationship marketing.

Relationship marketing (RM) is the basis for the whole marketing development nowadays. Discussions about creating sustainable competitive advantage using a trust building process are widely extended (cf. Christopher, Payne and Ballantyne, 2002). The leading role of RM was also supported by three decades of research in business interactions and relationships by the IMP group scholars (cf. Håkansson and Ford, 2002; Håkansson and Snehota, 1995). Today RM is at the forefront of academic research and marketing practice (Berry, 1995; Parvatiyar and Sheth, 1996). Much of the current research has focused on defining constructs and presenting conceptual models of relationship marketing or identifying key moderators of successful relationships, such as trust and commitment (Morgan and Hunt, 1994).

The lack of practical research and proofing in this field is also stressed by the researchers (Fitchett and McDonagh, 2002). There is relatively little empirical examination of the effect of successful relationships on firm profitability and business success (Reinartz and Kumar 2000; Hunt et al. 2002). Only very few papers demonstrate positive correlation between long-term relationships and profitability of suppliers, or between a company's adoption of relationship marketing programs and its performance (Corsten and Kumar, 2003; Kalwani and Narayandas, 1995). Varey (2003) suggested that RM was at best an idea that had never been actually pursued by businesses. Oliver (2006) draws attention to the focus of RM on operational issues rather than on how it contributes to the future strategic direction of an organization. But in spite of this criticism RM still attracts attention of researchers and represents the new marketing paradigm (O'Malley and Tynan 2003).

Buyer-supplier relationships are very often discussed in RM. The conducted research stresses the absolute necessity of building long-term trusting relationships with customers. Several marketing practices of establishing, developing, or maintaining cooperation and collaboration with customers and other marketing actors appear under the umbrella term of RM. These include after marketing activities (Vavra, 1992), one-to-one marketing (Pepper and Rogers, 1994), membership programs (including frequent buyer incentives), cross-distribution arrangements, cross-selling, co-production, co-branding, channel partnerships, logistics sharing, special supply arrangements (including special sourcing, and JIT arrangements), business alliances, database marketing, etc. (cf. Sheth and Parvatiyar, 1995b).

In modern life only those companies could reach sustainable competitive advantage that can suggest additional customer service or value, and increase customer satisfaction. RM is as much about keeping customers as it is about getting them in the first place. It aims to provide unique customer value sustainable over time and helps to manage it through closing the “quality gap” between what the customer expects and what they get (Christofer, Payne, Ballantyne, 1991). High customer service is understood as the process which provides time, place and form utilities for the customer in pre-sale, sale and after-sale transactions. Important role in this process is devoted to the aftersales relationships to understand the level of customer satisfaction and ways of company improvement. In order to build continuously good relationships with customers, a company should plan and organize an im-
provement process with monitoring customer requirements, new market trends and new technical ideas. Of course, high customer service is not just an issue in managing downstream relationships with ultimate customers, but also upstream relationships with suppliers. The only way to reach high customer value is to organize the whole chain from customer to supplier.

Häkanson and Snehota (1987; 1995) identify three layers of relationship content: activity links, resource ties and actor bonds. Harland et al. (Harland, Zheng, Johnsen and Lamming, 2004) build on this typology operation stages of a relationship: partner selection (only at the creation stage), resource integration, information processing, knowledge capture, social coordination, risk and benefit sharing, decision-making, conflict resolution and motivation. Though most of the authors focus on static views of these relationships, Ring and Van de Ven (1994) view the process from an adaptation perspective and propose a framework where the development and evolution of a relationship is represented as “consisting of a repetitive sequence of negotiation, commitment, and execution stages, each of which is assessed in terms of efficiency and equity.”

Dwyer, Schurr, and Oh (1987) presented a framework that places exchange relationships on a continuum from discrete transactions to relational exchange. This process consists of four phases - Awareness, Exploration, Expansion, and Commitment resulting in a set of shared values and governance structures between the two parties. Several sub processes occur to deepen the dependence of the two parties and move the developing relationship from one phase to the next. Life-cycle model was developed also in the ECOLEAD project (Camarinha-Matos and Afsarnabesh, 2003). This model includes phases such as identification, formation, operation/evolution and dissolution (see Figure 5.1.5).

![Figure 5. The phases of relationship development.](source)

Figure 5.1.5. The phases of relationship development.

But not all relationships can go through all these stages. Since Morgan and Hunt’s (1994) seminal paper trust and commitment were established as key mediating variables (KMV) in RM, key factors of relationship stability, and turned into the most discussed variables in RM (see Figure 5.1.6). It is stressed that mutually beneficial relationships which form sustainable competitive advantage can hardly be copied by competitors. Commitment influences the buyer’s choice of seller (Ganesan, 1994), and trust is a key driver in this process. Indeed, commitment and trust are critical to any discussion of business relation-
ships because they encourage exchange partners to work at preserving the relationship and achieve mutual gains (Morgan and Hunt, 1994).

Figure 6. The Morgan and Hunt’s KMV model of relationship marketing.

Figure 5.1.6. The Morgan and Hunt’s KMV model of relationship marketing.

**RESEARCH PROJECT**

**Project description and objectives**

Several relationship marketing issues were studied by different researchers employing relevant theoretical approaches. Customer relationship management and purchasing practices, and foreign market entry strategies of, as well as interfirm trust between, Finnish construction sector companies entering or operating in Russian market were the main aspects of the inquiry. This chapter reports the study of relationship facet and network development facet.

The study of interfirm level customer orientation’s relationship facet included a study of interfirm customer relations, CRM tools and customer orientation, as well as a study of relationships with suppliers. Main objectives of the customer relations study were:

1. To identify levels of customer orientation and ways of customer value creation;
2. To identify main stages of customer relations development, as well as issues emerging at each stage;
3. To identify most frequent tools and practices used for CRM.

Purchasing study aimed at:

1. Investigating how purchasing management in a chain of firms evolves when certain changes in demand occur
2. Identifying purchasing practices which are present at different levels of network-level market orientation.

Network development facet study was devoted to describing the relationship development process of five Finnish companies on the Russian market. Its immediate task was to show different types of entrance strategies and difficulties in strengthening relationships
with the local partners. Also common market difficulties and special company’s problems were revealed. The last objective was to investigate the role of RM in customer satisfaction.

In order to accomplish all these tasks, different Finnish companies working on the Russian market were investigated.

**Research methodology**

Quantitative studies that would verify elaborate theoretical approaches were initially planned. However, only a limited number of companies were available, so the methodology was changed, and research purposes were accordingly adapted to develop new theories rather than to test existing ones. Qualitative approach, including in-depth interviews and case method, appeared an appropriate way to develop new marketing concepts (Dooley 2002; Gummesson 2007), and hence it was chosen as the main research methodology.

The best method that could help solve all these multifaceted problems is the semi-structured interview. According to Yin (2003), interviews are one of the most important sources of primary data. This method is used when the purpose of research is complicated or ambiguous. While conducting interviews the necessary clarification could be given and additional questions for clear understanding could be asked.

Case study also seemed an appropriate method because of the limited number of complicated cases. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Case studies are complex because they generally involve multiple sources of data, and produce large amounts of data for analysis.

Overall, circa 50 interviews with managers in five Finnish companies covered customer and supplier relations and network development topics (see Table 5.1.1).

Table 5.1.1. Number of interviews done for each P5 topic under STROI-network project. ‘Trust’ topic is reported separately.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Finland</th>
<th>Russia</th>
<th>Total # of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign market entry</td>
<td>1</td>
<td>&gt;30</td>
<td>5</td>
</tr>
<tr>
<td>Marketing/CRM</td>
<td>1</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Purchasing</td>
<td>1</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Total*</td>
<td>1</td>
<td>&gt;50</td>
<td>5</td>
</tr>
</tbody>
</table>

* Numbers don’t sum to the Total because each interview covered several topics, and several interviews were done at each company.

A series of semi-structured interviews with companies were done by each researcher. Interviews were held with top and middle level managers for 40-60 minutes each. In general, researchers were equipped with DVRs, except for ~15 cases, in which only on-paper notes were made. Next, interview transcripts were produced, checked with respondents, translated into English and encoded into Nvivo7.

Each researcher implemented manual coding of relevant data individually. In a different manner, cases of companies were compiled from transcripts supplemented with secondary information (*only for a limited number of companies*). Cases covered both company background and interview findings. To provide at least limited data and method triangulation, different researchers’ insights from cases and coded transcripts were cross-tabulated and discussed (*however, cases were not shared with respondents*).

**RESEARCH RESULTS AND INDUSTRIAL IMPACT**

Main findings for “Perspective 5: Marketing” can be summarized as follows:
1. Investigated companies exhibit relatively low level of customer orientation, and don’t measure customer satisfaction;
2. Investigated companies exhibit relatively low level of CRM tools and policies usage;
3. When securing customer company’s commitment becomes possible, companies don’t pay due attention to it;
4. Customer companies pass through relationship stages individually, and success in reaching commitment stage mainly depends on particular manager’s knowledge and experience;
5. Companies have developed systems to evaluate performance of suppliers and the products supplied, but not of supplier relationships;
6. Some firms are buying from suppliers which disregard final customers’ needs and have poor purchasing capabilities, and this prevents these firms’ ability to translate its own customer knowledge into tailored value propositions;
7. Successful implementation of three types of market entry strategies can be observed;
8. As perceived by firms, trust, honesty, willingness to conduct open dialog, readiness to adapt and great wish to work account for relationship stability (over and above economic returns);
9. Main difficulties of companies are macroenvironmental factors (such as bribes, obsolete standards, changing legislation);
10. While many firms maintain strong relations with their suppliers (often also Finnish firms), few firms develop strong customer relationships.

We present the findings for each facet in this section.

**Customer orientation and ways of value creation**

Most interviewees admit that the Russian construction market is much more competitive than other East-European, Scandinavian or Baltic markets. The first factor is the number of projects developed, and growth rates that had attracted many suppliers and developers from all over the world by summer 2008. The second major factor according to information provided is the economic crisis that makes the competition even fiercer due to decreasing demand and growing consumer bargaining power. Due to these factors all respondents state that all customers are equally important and none of them can be denied. Great dependence on project financing and loans is another feature of construction market, especially in Russia. It is most important for big companies and long-term projects. However, Finnish companies have a great experience dealing with more sophisticated needs and requirements of European customers. On the contrary, Russian customers in general seem to be looking for low prices due to the market situation. In these circumstances Finnish companies can pay less attention to the customers than it could be expected because they have tested their product lines in more sophisticated markets and do not want to simplify it. Then they have a certain insight into possible market development paths due to previous experience, that is why Finnish companies in Russia do not demonstrate high levels of customer orientation, according to available evidence.

In terms of value creation, Finnish companies in the Russian construction market demonstrate the following results. Companies achieve fairly good results in creating exchange value for their customers as it is based on the features of the product propositions and additional services provided. Service extensions are rarely outsourced due to the lack of reliable partners in the Russian market. On the other hand relational and proprietary value creation is not so frequent. First of all Russian subsidiaries do not possess the complete range of business processes. For example new product development is arranged in Finland, so Russian customers are not involved. Proprietary value creation refers to internal business process improvement. This source of value creations is also underperforming due to the poor customer knowledge (in terms of satisfaction assessment etc.)
Relationship development stages

In this block we are going to discuss findings on relationship development stages: challenges and solutions, as well as issues in transition from stage to stage. As mentioned above, customer relation development includes several phases, and according to the data collected, each of them brings certain problems to be solved. It also should be mentioned that the stages are very hard to separate.

At the **Awareness** stage, managers search potential customers using all possible channels. There are several problems at this stage: very high entry barriers, difficulties with embedding into existing relations, dealing with complex construction legislation and certification, customer representatives demanding bribes and so forth. The company can move on to the next stage of relationship building only in case these problems are solved. So managers extensively use customer intelligence and get straight to the CEO, sometimes with bribe reporting.

During the **Exploration** stage managers negotiate term and conditions of future contract. The duration of this stage can vary greatly. It depends on the perceived trustworthiness of the seller. Trust is declared to be very important for the relations. It basically refers to two main components. First is 'initial' trust (or 'perceived trustworthiness') that refers to the degree to which customers consider the company to posses professional competencies to carry out the service/provide the goods required. This component defines how smoothly the stage of negotiations would pass. Customers with high level of trust regard the firm as 'problem solving agent'. They give some problem description and allow the firm to suggest its own solutions, and choosing the most suitable one. Other customers insist on a very complicated agreement that would include all possible risks. Customers of this group are not familiar with this company, its quality standards and working behaviors. For foreign (not Russian) customers perceived risks are extended by Russian construction norms and regulations that are new for them and very complicated.

The second level of trust (or 'relational trust') is achieved during the interaction process. Most interviewees assume that interpersonal relations are very important, especially for problem solving. On the other hand further negotiation (transactional) costs are reduced as well as some new value created when parties move from simple purchase to custom solution building for the particular customer. According to the survey conducted there are several problems connected with this stage.

When the deal has been secured, initially there are very strict requirements for on-time delivery and quality assurance, as well as coordination challenges. These problems are solved with the use of signaling to suppliers and securing suppliers’ commitment, rather successfully as reported.

The last two stages, **Expansion** and **Commitment**, are very hard to separate in practice. According to the respondents’ opinion, their ‘target’ customers are initially aimed at quality and long-term development rather than low prices. Interpersonal relations are reported to be very important in keeping up relations. They are also the main instrument to solve problems of this phase: payment delays and contract fulfilment.

Finally, respondents tend to name formal agreement as one of the most important steps in the customer interaction process. Contract fulfilment is the most important reputation asset that is considered in next interactions and negotiation processes. Only one respondent mentioned that Finnish partners can be trusted without a written agreement while others admitted that there is no difference between Russian and foreign partners in terms of trust, risk and contract fulfilment.
CRM methods and tools

We have been inquiring what CRM methods and tools are implemented by companies. As the project proceeded, new questions were raised: why are so few sophisticated tools used? And why is the reliance of the managers on negotiations, social relations and personal judgments so high?

First of all, it should be mentioned that no sophisticated IT solutions dealing with customer management were identified. We will further discuss possible reasons for that finding, and in the next paragraphs we list all CRM tools and comment on their implementation in the companies.

As mentioned earlier, customer identification dimension deals with target customer analysis and customer segmentation. Basically customers are differentiated according to the industry they belong to. It is quite natural because of various construction standards and legislation to be taken into consideration in case of different industries. As for customer rating criteria respondents basically distinguish three main groups: regular customers, key customers and potential customers.

The first group is represented by companies with a moderate share of wallet and purchase volume, they are likely to switch to other suppliers. The second group or key customers are the most important for the company, providing most sales volumes as well as stable demand in the long term. The third group is represented by companies who can start buying either switching from a competitor or entering the market for the first time. Also there is a criterion such as customer potential that corresponds with customer ability to start some large projects and also become a key customer. One of the most important criteria during the interaction is the contract or formal agreement.

Customer attraction refers to direct marketing tools used to communicate with the potential customer. According to the results of the survey, companies use a variety of communication channels including e-mail, phone and personal sales. Loyalty programs and customer complaints handling are not well developed. Most surprising was that companies do not possess information on the exact share of satisfied customers. Some respondents stated that customer satisfaction monitoring is in initial stage of development. The last dimension, customer development, is also in its initial stage. According to the information collected, Finnish companies in Russia neglect formal CLV or similar estimates. Any customer can be transferred to the most important customer category on the basis of possible sales volume and business growth rates.

In general, the level of CRM in Finnish companies on the Russian market can be estimated as average with good communication but poor customer analytics that can have a strong negative effect in long-term perspective. Market research is either outsourced (from time to time) or performed by particular managers for their own needs. Customer satisfaction is not measured or monitored on regular basis.

Why isn't customer satisfaction monitored? There can be several explanations. First, managers had to deal with rapid market growth during the last years and did not have any time to carry out such work. Second, most companies do not have great work experience in Russian market so without direct knowledge transfer from 'Mother Company' their CRM methodology and system is in progress.

The state of purchasing

In general, Finnish companies operating in Russia have access to much more sophisticated buyers and produce goods and services with functionality highly in excess of what is demanded in Russia. Market context until summer 2008 favored production & sales-oriented approaches and customer/market orientation was of little benefit to most of them. For several years the demand for construction and related services was growing, housing prices
were spiking, and new firms were jumping on the bandwagon of this fast-growing market every day. However, at the time of interview most companies already faced a market shrinking due to the financial crisis. The demand was changing.

The companies interviewed were large, and sales in Russia (from 3 to >100 million euro) only accounted for a small part of their turnover. They had been operating in Russia for some years (up to >30), but the decision to extend their business beyond Moscow and St. Petersburg only came during the recent boom (after year 2001).

Every company extended its long-term relations with suppliers from Finland and from other European countries into the Russian market, and in certain cases this influenced their decisions to establish a local presence. Some companies had local suppliers. According to them, many Russian suppliers exhibit bad delivery discipline, and the ordinary cure for that is to contact the general director personally, so that he uses his power to enforce delivery. Personal relationships are also expected to complement interorganizational relationship when dealing with customers (b2b). As a matter of fact, it comes that these suppliers mainly serve price-sensitive and undemanding customers who may tolerate delivery dates and quality problems in exchange for price rebates. In other words, they are embedded in relations that restrain them from doing their best for Finnish companies, and this is hard to change. Pre-qualification and selection, e.g. on the basis of previous successful deliveries to international firms with demanding standards, may be recommended, instead of exerting control.

Finnish managers in Russia either controlled purchasing policy implementation on-site, or were responsible for purchasing and reported to head office. In every company studied, purchasing was highly coordinated with marketing internally, and systematical sharing of market information with suppliers was in place. One of the companies was sharing its procurement & production plans, another was a valuable source of information on new product development for its suppliers, and was giving proof of purchase in advance. However, researchers did not find evidence of joint planning with suppliers locally.

One way normally recommended to regularly improve purchasing excellence is to have an evaluation system for suppliers and supply relations. All companies had more or less formal systems to evaluate performance of suppliers and quality or performance of the products supplied. However, surprisingly, none of these included evaluation of supplier relationships. As noted by one respondent: "It is absolutely the negotiation process. [The formal evaluation] should be periodically implemented […]. Certainly, it should be [a] more organized [process]." In this latter case, the company did not seem to experience problems in relationships. However, another company only identified problems in supply relationships when suppliers failed to deliver according to agreements or in due time. It may hint that relationship management capabilities need to be developed on the supply side.

Another well-known way to improve purchasing is to organize extensive knowledge exchange on supply issues and to introduce integrated information systems. None of the companies integrated their systems with suppliers. However, some companies organized regular meetings and specialized trainings (knowledge exchange and dissemination events) that covered purchasing matters. In one of them, local meetings were held monthly and global meetings were held 2-3 times a year.

**Purchasing and interfirm market orientation**

Researchers subjectively evaluated relationships of the studied companies with suppliers to distinguish them between dyads with higher and lower levels of ifMO. Relationships of four studied companies with their suppliers were evaluated by three aspects: joint planning, market knowledge exchange, and collaborative relationship atmosphere.

Next, at each company, purchasing practices that counter ifMO were identified. Evidence was found (in different cases) of suppliers’ both disregard and unawareness of final
customer’s needs, poor purchasing capabilities, and over-dependence from other buyers. All of these indeed hinder ifMO. No other such practices were identified.

Another finding was that the above-mentioned practices (with the exception of one) were observed only in the group of firms with lower levels of ifMO. At least, this does not contradict to the results of the literature review. One observation, however, seems to be universal for all companies: they sourced from some suppliers which were heavily embedded in other buyer-seller relations, which is potentially a serious obstacle to introduce ifMO.

**Foreign market entry strategies**

According to the research task three market entrance strategies have been found out (see Figure 5.1.7):

1. To organize subsidiary
2. To buy functioning local production company.
3. To open independent Russian company which will buy products from Finnish associated company

![Figure 5.1.7. Different entry strategies to Russian market employed by Finnish companies.](image)

The first strategy means creating a new company which is owned by a Finnish parent company actively investing in its development. The head of this company is Finnish representative and it is fully organized as European one. The advantages of this approach are: independence from other possible owners, organizing work on the basis of high European management level, absence of necessity to reconstruct internal norms and rules. Disadvantages of this strategy are: difficulties in finding customers and reliable partners, long development time.

The second strategy is to buy existing local production company. Management is looking for local company with close production process or competitive construction product, tries to negotiate with local management and buys at least 50% of shares. The advantages of this strategy are: broad existing market, debugged production process, office, personnel resources, equipment and possibility to extend production capacity with low cost or organize its own. Disadvantages are: necessity to approve one’s own strategy with local manage-
ment, necessity to rebuild internal norms and rules if it is needed to improve performance, difficulties in future opportunity to redeem the enterprise.

The third strategy is to organize independent Russian company with the local management team, to give it a development loan, to help find customers on the basis of existing Finnish partnerships. After the first steps this company starts to operate by itself, earnings are growing; purchases of Finnish materials are increasing too. This local company orders some products or services in the parent Finnish enterprise that will favor its higher turnover, after the profit increase it returns the loan and pays some commission to clients. The advantages of this strategy are: stronger personnel motivation in the fast development, high return on investment rate, turnover increase, and initial loan returns. Disadvantages are: complicated control, risks of full separation, possibility of information distortion, and loss of know-how.

All these strategies have their advantages and disadvantages, but one interesting finding is the third case, this strategy is slightly reminiscent of a franchising strategy. A very positive effect of this approach is strong personnel motivation to develop and increase revenues. It has a very high level of independence which is a very important factor for flexibility and development in a turbulent environment.

**Development of long-term relationships**

In all investigated cases we have found a similarity of discovered stages. And we can see some connections with the articles devoted to the relationship development process (cf. Dwyer, Schurr and Oh, 1987). The first stage is looking for a needed partner. A company is looking for the client by gathering information about planned construction projects, surfing the Internet, placing commercial offerings, exhibitions, making use of old personnel contacts.

If a client is interested in company’s proposition the first meeting takes place (stage 2), where companies give a short presentation to each other, discuss the future project, difficulties, possibilities, first relationships are established. At this stage it is important to trust and to achieve open discussion because it would facilitate future communication, and helps each side clearly to understand tasks and responsibilities (this was also mentioned in Morgan and Hunt, 1994).

In the first meeting’s discussion results (it could be more than one meeting) the subcontractor prepares the project draft (stage 3). At this stage the customer looks for the professionalism of prepared documents, lists and scale of tasks and estimating the price level adequately.

Next, (stage 4) companies discuss the price, probably of its cutting or changing work list. They are coming towards approving a contract. It is necessary to clarify all details and responsibilities and make sure that every side of the negotiation process clearly understands the timetable and possible delays. On the first stage they adjust and sign the contract, plan future interaction and start working together.

One of the Russian market peculiarities is to sign the contract before the work starts. Russian companies very properly defend their contract details. They believe more in contracts than in future relationships. A Finnish company can start work without a contract, and contract conditions are not very important for them because they try to do their best to implement the project well. The special feature of some investigated companies is that they try not only to fulfill their obligations, but also help the client to negotiate the project or to get financing. This concern for the client is a very important competitive advantage that can facilitate future relationships development. This discussion is summarized in Figure 5.1.8.
Of course some changes in this process are possible but the whole scheme is rather the same in all investigated cases. It was mentioned that trust was built during all these stages. One can do it through conducting open dialog, trying to hear what the customer really wants, honest warning of possible troubles, and great interest in mutual work. This leads us to the next investigated question.

**Main factors for relationships stability**

Relationships were considered to be either stable or unstable. Relationships were considered stable when they showed regular volumes of trade over time, typically following closely the evolution of the client’s turnover. When important variations were found, throughout time, in the values of trade, then the relationship was understood to be unstable. There are some factors that provide stability.

Factors mentioned in all interviews are: trust, honesty, willingness to conduct open dialog, readiness to adapt and a great wish to work. Some specific factors were discovered, such as: professional level, a continuous company improvement process, personnel relationships, to be in the schedule, give all needed information on time. These factors were revealed in some companies.

We can divide all these factors into different groups: first, the atmosphere of the relationship (Håkansson, 1982), which surrounds the interaction process between company and its customer (trust, honesty, willingness to conduct open dialog). The second group of factors deals with the readiness to adapt to the customer needs (to adapt project draft, product, timetables, and price). The next group is connected with interest in relationships (support in every situation, propose different variants of problem solving, suggestions of project improvement, help in search for other reliable partners). The other group of factors is the bonds, developed between clients and company. Relationships are based on different kinds of bonds, which develop over time and through which the actors are tied to each other: economic bonds, knowledge bonds, technical bonds. Economic bonds mean the profit distributive justice. This project should be favorable for both parties. Technical bonds mean mutual technical support. Smart technical decision can considerably reduce costs and project time. Knowledge bonds represent widely gained company experience which could reveal
all potential obstacles. Contractor professionalism in technical issues can help to improve
the project not only in the field of contract but in other fields too. Social bonds refer to so-
cial connections with other companies or state institutions that could help to accomplish the
project. Different factors providing relationship stability are demonstrated in Figure 5.1.9.

![Diagram of relationship stability drivers](image)

Figure 5.1.9. Relationship stability drivers.

**Russian market difficulties in business driving process**

According to our research, Russian market difficulties in the business driving process are:
different construction norms, difficult and complicated process of project approval with state
institutions, bureaucracy and bribes, difficulties in accurately planning costs and work time
because of an uncertain environment, often changes in legislation and long contract agree-
ment. The specific detected difficulties are: low labor productivity level, needed personnel
control procedures, problems in involving personnel from Finland because of immigration
laws, complicated financial reporting, much paperwork for accounting, additional legal li-
bilities of general directors, additional construction liability, difficulties in land legalization,
twisted legislation, difficulties in coordination in utility allocation with state institutions,
partners distrust, doubly tenders, failure to comply with rules from Russian partners, ten-
dency to lower prices from Russian partners, hard to squeeze in existing relationships in
construction market and thefts. All these factors could be divided into several groups (see
Figure 5.1.10).
Developing marketing for the STROI-network. Report for Perspective 5: Marketing

Figure 9. Groups of Russian market difficulties.

Level of customers’ satisfaction after transaction

We received a very unusual result in this field, because there were no procedures to analyze whether customers are satisfied or not in the investigated Finnish companies. In some companies the process of creating a questionnaire or estimating the level of customer satisfaction was in the very beginning, others just make some notes about a project and how peculiarities of relationships development with a customer: difficulties, maintenance of payment periods. In other firms managers said that "if a customer will come back for another product or service – so it means he was satisfied". Only two of investigated companies are trying to maintain relationships with former clients. It was also discovered that investigated companies were ready to make some concessions to clients, but not in price.

What managers think

The findings from the interviews are as follows:

1. The only way to live in crises in Russia – to maintain and develop honest reliable relationships with partners.
2. If you want to get quick and quality results you should agree its features with the general director.
3. Be aware of general director’s additional administrative and legal responsibility, including criminal liability.
4. Peculiarities in managing personnel in Russia: strong control, clear rules for bonus system, because money is a main motivator, pushing strategy for personnel development.
5. You need good informal relations with state institutions for approving project, land legislation, coordinating the allocation of utilities. Or your partner should have them.
6. Partners distrust in the first steps – everything should be on the paper, and that leads to long time of contracts agreement.
7. Russian company will always try to lower prices.
8. Result of some tenders is known before the tender takes place.
9. It is needed to guard the building yard because of thefts.
10. It is very hard to get into existing relationships in construction market.
11. Finnish companies believe in Russian partners, but Russian managers in Finnish companies do not.
12. Recommendations are very important because a new manager comes to company with his old partners, to be sure in results.
13. Need for systematic control on how Russian partners implement contracts. The best way to do it is to divide a contract in small stages.

CONCLUSIONS

We summarize conclusions according to the research topics covered in this chapter, next we discuss relationship and relationship management issues. Finally we provide brief insights for practitioners and outline avenues for further research

Relations with customers

It can be concluded that the Finnish companies observed demonstrate a relatively low level of customer orientation, as well as low level of CRM tools and policies usage (including IT) and lack of formalization. As mentioned above, interpersonal relations are very important because the majority of potential customers tend to have favorite supplier(s) and Finnish companies have to break into existing relations. In this context local sales managers seem to have the most important competitive advantage. This is the first factor explaining such a low level of customer management formalization. The second factor is connected with rapid market growth of the last five years. In these conditions managers had to concentrate on market share neglecting sophisticated customer analysis. Third, most companies have limited Russian market experience, and with knowledge transfer from ‘Mother Company’ going slowly, they implement CRM techniques.

Also the companies observed demonstrate low attention towards relations development phases; especially transfer to the commitment stage. It seems that the lack of formalization and analysis can also explain why special goals or policies to reach commitment on the organizational level are not in place.

Relations with suppliers

We have found that suppliers’ disregard/unawareness of final customers’ needs and suppliers’ poor purchasing capabilities are associated with lower ifMO. Besides, there is evidence that buying from such suppliers prevents a buying firm’s ability to translate customer knowledge into tailored value propositions and hampers its efforts to re-engineer supplier relations with an aim to increase market orientation of the dyad.

The study has many limitations beyond usual drawbacks of qualitative studies. First, the interviews provided only a partial picture of companies’ management practices, so the researchers had to make their best estimate based on the available evidence (this may have a negative influence on the validity of findings). Second, in the market observed, firms exhibit relatively low degrees of market orientation (this may influence negatively the generalizability of findings). In future, the study will further develop the concept of ifMO and how it is related to purchasing.

Network development

In modern life all companies are looking for new markets with weak competition and positive future prospect. The perspective markets are BRIC, Asian ones, and other fast developing countries. For European companies Russia is the most attractive market, because of territorial closeness and political stabilization. Russia became less risky, more perspective, with a growing rate of residential income. Moreover, some companies have past experience of working in the Soviet Union and now they are going to renew their operations in Russia.
Especially this concerns Finnish construction companies which are actively beginning to fill the market. But time has changed, and principles of doing business have changed too. A new Russian market demands new solutions and use of new marketing concepts such as RM.

RM plays the leading role in present-day business. We could hardly imagine company development without saving and developing trusty and mutually beneficial relationships with customers and partners on long term basis. The only way to be sure in the future result is to strengthen mutually beneficial relationships and develop RM principles in everyday practice.

Our research was devoted to the investigation of applications of RM principles in business practice. We have investigated: peculiarities of relationship developing process by Finnish companies on the Russian market, types of their market entrance strategies, crucial factors for relationship stability, boundaries of companies’ development on the new market, peculiarities of interactions with customer and getting feedback about level of customer satisfaction. All these tasks were completed and interesting findings were received. These results will be useful not only for Finnish companies but for all others who start business in Russia.

**Portraying relationships**

A variety of market entry strategies is observed, and as a consequence, the relationship between the local company and the parent company takes different forms. Some local companies are highly independent entities with local management team, others are subsidiaries of the Finnish/Swedish companies totally subordinated to parent firms. Some are newly opened ‘greenfield’ operations, while others are formerly Russian firms operating on the local market.

Every company extended its long-term relations with suppliers from Finland and from other European countries into the Russian market. Some of these supplier relations have been lasting for decades, so they are regulated at the parent company level.

Whenever possible, Finnish companies also extended their customer relations into Russia. In contrast, firms do not always establish relationships to local customers: in many cases they just pursue profitable transactions. For example, three of the investigated companies are not trying to maintain relationships with former clients. Most do distinguish, however, between usual, key and potential customers.

Interpersonal relationships are reported to be very important in relations between firms. They are expected to complement an interorganizational relationship when dealing with customers (b2b).

**The state of relationship management**

Companies do not possess systematical knowledge about the level of satisfaction of their customers, about the way potential customers evaluate their trustworthiness, and how they behave after the sale is over (e.g. whether they can recommend the company to some other customers). Procedures to analyze customer satisfaction were not found in the observed companies. Some managers stated that customer satisfaction monitoring was being developed. In some cases some available market information is not shared with suppliers, and hence cannot be used in contract negotiations.

However, information is acquired on an informal basis. Salespeople’s personal relationships to customers are most important relationship management tools. For example, sales managers extensively use customer intelligence and get straight to the CEO, sometimes with bribe reporting. They can also get informed about some customers through networking with others.
Personal relations are a way of managing risks. In many cases, whenever the contact person from the customer side moves to another company, the relationship with a company is lost. In such cases personal networking helps to develop new organizational relations and acquire new customers.

Trust is declared to be very important in relations. It especially concerns managing risks in existing relations, building market awareness and reputation, as well as enforcing contracts. Managers tend to acknowledge that where applicable, informal norms to a large extent regulate customer relations. However, respondents also tend to mention formal agreement as one of the most important steps of the customer interaction process.

Most managers are satisfied with informal decision-making processes and do not perceive formalized systems as useful. Formalized systems for customer relationship evaluation (e.g. CLV) are not present. As a consequence, in certain cases this triggers internal negotiations that take a long time. The same applies to relationships with suppliers.

**Insights/implications for practitioners**

The Russian market boom has been stopped. To some extent, this calls for new solutions, such as strengthening relationships to retain customers and to secure adaptation from suppliers. This in turn calls for the use of new marketing concepts such as RM. As far as relationships are concerned, strengthening relationship management capabilities is highly advisable to companies.

As time goes, companies will certainly establish market monitoring systems. What is not being measured cannot be managed, and this especially applies to the Russian market. However, measuring is not a thing in itself. Relationship evaluation tools can be used to make this information usable for decision-making, and to supplement informal evaluation which is the only tool currently available.

**Avenues for further research**

Further research will be devoted to development and validation of the market orientation concept on the inter-firm level. It is not yet clear how interfirm market orientation might relate to individual relationships with customers and suppliers, as well as to the wider network context. What marketing and purchasing practices of a firm catalyze or hinder market orientation of the network where it is embedded, will be subject to further studies.

As for further research projects, it would be relevant and highly recommended to undertake a wider study of foreign companies on the Russian market, and to use quantitative methods. Since only a limited number of Finnish construction companies operate in Russia, it is advisable either to enlarge the range of industries, or the range of countries (e.g. to Scandinavian companies), or both.

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5.2. Building Trust in Counterweight to Risks Perceived in Finnish-Russian Inter-Organizational Relationships in Construction Business (Weck)

INTRODUCTION

The Finnish construction industry has always had special connections with Russia since the Soviet Union time. However, the significant growth of business activities of Finnish construction companies in Russia was a result of the radical political and economic reforms there during the last few decades which have opened many opportunities for foreign business sectors. Although the emergence of the global financial crisis in September 2008 has caused a dramatic fall in business activities of Finnish companies in Russia, the Russian market still remains attractive for many construction companies which see it as a challenging opportunity. The challenge is to understand the current circumstances in the market and to predict its future development which will only be possible through close cooperation and determined collaboration with reliable local partners. As for construction companies, reliable relationships within business networks will also bring strong competitive advantages in the bidding process of future contracts.

Having the long-term reliable relationships with Russian partners became even more critical during the crisis. Nevertheless, it is not an easy task. Even though Finnish construction companies have operated with the Russian partners since the Soviet period and the Russian business culture is sound, building successful relationships has typically been problematic and continuously creates challenges. This research examines the extent to which these challenges are being met. This is the empirical focus of the research.

Furthermore, despite the fact that the new Russia now embraces free-market liberal principles, the market institutions and infrastructure in Russia are still underdeveloped and development trends are difficult to predict. It means that foreign companies operating in the Russian market have to rely extensively on trust in forming relationships with local partners, while trust is often considered as a substitute for developed market institutions (e.g. Peng and Heath, 1996). Trust has been repeatedly stressed to be a strong foundation for the inter-organisational relationship development (e.g. Gustafsson et al., 2009; Doney and Cannon, 1997; Morgan and Hunt, 1994). This is therefore one primary way to meet these challenges and this provides a key focus for the research.

Developing relationships with Russian business partners under the conditions of uncertainty of the current market environment, foreign companies are involuntarily exposed to certain risks. These are risks caused by disturbances inside the relationships between partners of business network, e.g. an exposure to potential loss or harm for a partner. Such risks can never be entirely eliminated, but to a large extent as literature suggests, trust plays an important role in counterbalancing them (e.g. Arrow, 1973; Håkansson and Snehota, 2000; Shapiro, 1987; Williamson, 1985; Zucker, 1986). Risk provides a second focus and the potential for trust to be a counterweight or a factor of risk mitigation will be a further theme of the research.
This highlights the need for a more comprehensive understanding of the role of trust as a mechanism to counterbalance relationship risks, and practically, how Finnish construction companies can approach the development of their relationships with Russian partners and cope with related risks. However, the discussions here on the inter-organisational relationships will not go beyond the dyadic level, i.e. beyond the Finnish general contractor’s set of direct ties with Russian subcontractors operating in the Russian market.

LITERATURE REVIEW

The primary questions of the research are ‘what’ and ‘how’ questions, which focus on explaining the role of trust as a counterweight to risks perceived in the project-based relationship development between Russian subsidiaries of Finnish construction companies and their Russian partners, investigating how trust develops over time within the relationships and what are the underlying mechanisms of its development. The purpose of the literature review therefore, is to provide a brief overview of theories and current research efforts relevant to the research theme and to define the main research constructs. As a result, the conceptual framework for the empirical part of research will be introduced with the set of propositions.

Development of project-based relationships between network partners

There has been increasing attention on inter-organisational co-operation in the literature since the 1960s, and inter-organisational relationships have been the object of a number of studies (e.g. Ford, 1990; Gadde and Mattsson, 1987; Håkansson, 1989; Johanson, 1994; Dwyer et al., 1987, Powell, 1990). The significance of inter-organisational relationships has been widely acknowledged, and the effective management of inter-organisational relationships is considered as being a key source of competitive advantage for modern organizations (Wilson, 1999).

Given that the relationship between partner organizations is the focus of research in different academic fields such as economics, management, organization theory, sociology, psychology, etc., a diversity of terms such as ‘co-operation’, ‘collaboration’ and ‘partnership’ has been cited generally regarded as ‘inter-organisational relationship’ (IOR). Evidently there is no consensus on definitions and application of the terms. Therefore, for the purpose of this research these terms were used as synonyms and refer to inter-organisational relationship defined as a voluntary arrangement between organisations that work together involving transactions on the contract basis with the aim to achieve some strategic objective. An application of co-operative inter-organisational relationships is various forms of network organizations. In this paper the term ‘inter-organisational relationship’ (IOR) is used to refer to voluntary arrangements between partner organisations within networks involving repeated transactions on the project basis.

The overall structure of business relationships within a network may appear relatively constant and stable with new relationships developing and old relationships breaking up over time. Eccles (1981) conducted a research on the construction industry and found that in many countries the relationships between a general contractor and subcontractors are stable and continuous over long time periods, and only seldom established through competitive bidding. However, changes in a network can be originated by any participant, and they can affect the relationships (Håkansson and Snehota, 1995). Further, changes always present in a network due to the interactions between participants (Halinen et al., 1999). Thus, the capacity to establish and maintain stable inter-organisational relationships over time has become an increasingly important criterion for successful performance of business networks.
An inter-organisational relationship can generally be considered as evolving gradually over time through certain stages from establishment to end (Ford, 1980; Dwyer et al., 1987). Dwyer et al. (1987) structuralized a relationship development into five main phases: 1. ‘Awareness’, 2. ‘Exploration’, 3. ‘Expansion’, 4. ‘Commitment’, and 5. ‘Dissolution’.

These phases could be shortly characterised as follows (Dwyer et al., 1987):

1. Awareness phases: recognising a feasible relationship partner, no actual interaction, 
2. Exploration phases: beginning to consider benefits, burdens and obligations related to the possible relationship, 
3. Expansion phases: increase in benefits obtained by partners and their interdependence, 
4. Commitment phases: investing substantial resources in the relationship maintenance, 
5. Dissolution phases: evaluating of the dissatisfaction with the partner and concluding that the costs of partnership continuation outweigh benefits.

Figure 0.1. Project-based inter-organisational relationship development.

The model was applied for the research purpose with the adaptation to inter-organisational relationships in the construction industry, where business activities have always been organized as projects. Therefore, the relationships between a general contractor and subcontractors are project-based. Projects as time-limited sequences of events are usually divided into three distinct stages: (1) development, (2) implementation and (3) termination (e.g. PMI Standards Committee, 1987). Thus, the main stages of Dwyer’s et al. relationship development model and project management are posed in reverse in order to see a correspondence between stages and processes involved (see Figure 0.1). Figure 0.1. depicts the model that reflects the development of inter-organisational relationships on the project basis.

A key distinction of this model relates to the ‘commitment stage’ that refers to the continuity of relationship between partners. With regard to construction companies it means that a number of joint projects have successfully been completed with their partners or subcontractors, and both parties were willing to continue their relationships in the further projects.
However, inter-organisational relationships do not develop through all these stages in a pre-determined way. Some relationships may fail after an initial contact, others may turn out to be useless after a first completed project, or they may not have the possibility to develop either, due to the inability or unwillingness of the parties. In contrast, some relationships are long-lasting and deal with parties’ varying aims and expectations at different times Ford et al. (2004). With regard to construction companies the long-lasting relationship with their partners or subcontractors means that a number of joint projects have successfully been completed, and both parties were willing to continue their co-operation in further projects. A number of different conditions for the development of successful long-term relationships between co-operative partners has been identified by researchers, but “virtually all scholars have agreed that one especially immediate antecedent is trust” (Smith et al., 1995, 10).

**Trust in inter-organisational relationships**

Over the past four decades, the concept of trust has been a focus of many scientists in multiple disciplines, and a variety of trust definitions has been proposed. Identifying the shared understandings of trust across disciplines Rousseau et al. (1998) suggested the following definition: “Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.” (Rousseau et al., 1998, 395)

Primarily, trust has been considered as an inter-personal concept (e.g. Blau, 1964; Erikson, 1968; Rotter, 1967). Later scholars in management have distinguished the concept of inter-organisational trust (e.g. Lorenz, 1988; Gulati, 1995; Sako 1994). In relationship marketing literature, definitions of inter-organisational trust mainly concern a belief that relationship partners will interact in the best interests of each other (Wilson, 2000). The following definition of inter-organisational trust of Anderson and Narus (1986) is behind the theoretical reasoning on trust in this research:

> “the firm’s belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm” (Anderson and Narus, 1986, 326).

However, the concept of inter-organisational trust remains problematic due to inconsistency among scholars in viewing an organization both as a subject and an object of trust.

It has been stressed repeatedly in the prior research the importance of individuals in trust between partner organisations (e.g. Gulati, 1995; Lewis and Weigert, 1985; Ring and Van de Ven, 1994). It is possible to think of ‘organizations trusting each other’ only because organisations are established and managed by individuals (Aulakh et al., 1996). Further, the exchanges between organisations are exchanges between individuals or small groups of individuals (Barney and Hansen, 1994; Nooteboom et al., 1997), and as Blois (1999) denoted, due to the affective element of trust, an organisation itself cannot trust. Thus, since trust existing in interactions between co-operative partners is performed by individuals, distinctive concepts of inter-personal and inter-organizational trust are interrelated. “This means that the more one trusts the supplier representative with whom one deals, the more one’s organization trusts the supplier organization” (Zaheer et al., 1998, 153).

The view adopted in this research is conceptually consistent with a view of Zaheer et al. (1998) which regards an individual both as a subject and an object of trust in the inter-organisational context, while the same is not true of an organisation. It is assumed, that the subject of inter-organisational trust (i.e. the trustor) is an individual, whereas the object of trust (i.e. trustee) is both an organisation as a whole and its individuals or organisational
boundary spanners who are involved at different levels in the process of inter-organisational co-operation (Perrone et al., 2003).

According to Nooteboom (2006) trust in individuals or organizations is a behavioural trust, which has different aspects such as trust in competence and intentions. Blomqvist (1997, 282) has proposed a two-dimensional definition of trust for business relationships: “an actor's expectation of the other party's competence and goodwill”. In this definition, competence refers to technical and commercial capabilities, organizational and managerial skills and know-how, whereas goodwill implies moral responsibility and positive intentions towards the partner which imply the absence of opportunism.

Many researchers have agreed in views that behavioral trust is the manifestation of subjective trust, and subjective and behavioral outcomes of trust should be differentiated (e.g. Craswell, 1993; Das and Teng, 2004; Gambetta, 1988). Regarding to subjective trust, in the literature, trust definitely refers to an individual's psychological state, and is mostly cited as a perception about trustee in relation to trustor (Das and Teng, 2004). Sitkin and Roth (1993) defined subjective trust as “a belief, attitude, or explanation concerning the likelihood that the actions or outcomes of another individual, group or organization will be acceptable or will serve the actor's interests” (Sitkin and Roth, 1993, 368).

Thus, in this research, on the basis of discussion above inter-organisational trust refers to a manager's belief that a partner organisation and its managers are able and willing to interact with positive intentions under the conditions of uncertainty and risks.

Much of the work on trust suggests that trust provides the conditions under which desirable outcomes such as positive attitudes, higher level of cooperation, and superior levels of performance are likely to occur (Dirks, 2006). Scholars from different business disciplines clam, that trust may lower transaction costs and enhance inter-organizational relationships (Doney et al., 1998). The empirical research stated that trust has a positive impact on relationship performance (Zaheer et al., 1998). Morgan and Hunt (1994) showed that work relationships characterized by trust engender co-operation, reduce conflicts, and increase the commitment. The authors claim that trust, as a key variable in relationship development, encourages positive attitudes between partners. The basic level of trust operates as a prerequisite for inter-organizational co-operation, because it helps to generate and maintain interaction and social order (Bachmann et al., 2001; Inkpen and Curall, 2004; Luhmann, 1979). Where trust is absent relationship will deteriorate (Palmer, 2001).

Regarding this study it could be assumed, as a general contractor comes to believe its trust in a co-operative partner as decreased, the contractor's orientation towards a further stage of relationship with the partner will be changed and worsened. This leads to the following proposition:

**Proposition 1:** The decrease in subjective trust level of a Trustor (Finnish general contractor) in a Trustee (its Russian subcontractor) negatively affects on the Trustor’s willingness to co-operate with the Trustee, while the increase in trust level has a positive impact.

**Relating subjective trust and perceived risk**

Trust becomes a vital concept when there are significant risks involved and when there is objective uncertainty about future consequences of trusting (Morris and Moberg, 1994). In the absence of trust, inter-organizational relationships would be pervaded by very high levels of uncertainty, causing managers to always question the motives and competences of their partners (Das and Teng, 2001; McEvily et al., 2003). Moreover, many theorists claim that trust is needed only under the conditions of uncertainty and risk (e.g. Boon and Holmes, 1991; Deutsch, 1960; Schlenker et al., 1973). A number of trust definitions include
explicitly or implicitly the concept of risk (Das and Teng, 2004). Thus, the definition of Currall and Judge relates risk and trust concepts considering trust as “an individual’s behavior reliance on another person under a condition of risk” (Currall and Judge, 1995, 151).

In practice, the term ‘risk’ is generally considered by managers as a danger or a possibility of unwanted events not an opportunity for desired positive outcomes (March and Shapira, 1987). Hence, the traditional definitions of the risk have typically focused on the probability of risk occurrence and consequences or losses. Therefore, risk can be discussed objectively in terms of the factual dimensions such as a probability and consequences. Thus, as Lowrance (1976) shortly defined it, risk is a measure of the probability and severity of adverse effects.

Risk can also be seen subjectively in terms of the socio-cultural dimension which emphasises the difference of individuals’ risk perceptions. It is often presumed that humans are irrational about risk because it involves the perception and calculation of probabilities. The subjective approach is the focus of social scientists’ attention, who have rejected the idea of objective risk, arguing that risk is inherently subjective (Krimsky and Golding, 1992; Slovic, 1992) and defining risk as a social construct, meaning different things to different people, which cannot be measured independently of peoples’ minds and cultures (Slovic and Gregory, 1999). Thus, an assessment of perceived risks necessitates both an estimation of the probability of outcomes and an evaluation of the magnitude of outcomes. These are not observable measures, but the result of evaluative judgement of an individual which will depend on individual’s own value system (Wharton, 1992).

Considering the sources of risk in inter-organisational relationships Das and Teng (1996) differentiated and characterized two distinctive types of risk. The first risk source concerns interactions between organisations and refers to ‘relational risk’ or behavioral risk which was extensively explored by Das and Teng (1996, 1998, 2001). ‘Relational risk’ is defined as the probability that partner will not satisfy the norms of co-operation. And, the second relates to the interactions between organisations and their environment and refers to ‘performance risk’. ‘Performance risk’ is ascribable to the probability of failure in achievement of the intended strategies caused by partner incompetence or market uncertainties. (Das and Teng, 1996)

Thus, in this research, relationship risks are considered as the probability of negative outcomes caused by disturbances inside the relationships between business partners. These risks consist of relational risks which are related to affective factors between the partners, and performance risks which are tied to partners’ competences.

According to Williamson (1983) opportunistic behavior is a typical source of relational risk. Shirking, distorting information, stealing the partner’s skills, clients and personnel are the examples of the opportunistic behavior (Das and Teng, 1998). It seems that co-operative partners often justify their guileful and self-interested behaviour, due to the payoff from cheating could be greater than that from operating according to the agreement (Parkhe, 1993). High relational risk can even destroy co-operative efforts (Das, 2006). According to Das and Teng, (1996) co-operative relationship allow partners to share the total cost and risks involved e.g. in marketing, R&D, and production relationships. Thus, authors pointed out that performance risk can be shared by forming a co-operative relationship, while relational risk is emerged only within a relationship.

From the foregoing discussion it could be concluded, that trust will impact on the willingness to co-operate through its influence on perceived risk. In other words, perceived risk mediates the impact of trust on the willingness to co-operate. And, the greater the willingness to trust, the lower is the perceived risk. Hence, the following two propositions are emerged:
Proposition 2: The more risks are perceived by a Trustor in the relationship with a Trustee, the larger the decline in confidence that the Trustor has in its Trustee, and conversely without the further development of trust.

Proposition 3: The more risks are perceived by a Trustor in the relationship with a Trustee, the more critical trust becomes and the higher the relational investment is needed in order to co-operate with the Trustee, and conversely.

It has been suggested by many scientists that trust can be viewed as an attribute of risk-taking behaviour. It enables a co-operative partner to be vulnerable to another taking risk from the relationship. (Mayer et al., 1995) As Johnston-Georg and Swap (1982, 1306) suggested "willingness to take risks may be one of the few characteristics common to all trust situations".

Many researchers have agreed in views that behavioural trust is the manifestation of subjective trust, and subjective trust and behavioural outcomes of trust should be differentiated (e.g. Craswell, 1993; Das and Teng, 2004; Gambetta, 1988). Thus, behavioural trust is viewed as being vulnerable to, or relying on, another party (Michalos, 1990).

Das and Teng (2004, 95) distinguish three categories of trust: "(1) trust as a perception (subjective trust), (2) as various antecedents to subjective trust (trust antecedents), and (3) as the actions resulting from subjective trust (behavioral trust)". Authors make a parallel with two types of risks. In practice, it means that 'subjective trust' and 'perceived risk' are the opposite concepts of each other. Further, 'subjective trust' can comprise two categories of trust: 'goodwill trust' reflecting the 'relational risk' among the partners, and 'competence trust' reflecting the 'performance risk'. 'Behavioral trust' can be considered as risk taking. In this respect, the causal relationship between 'subjective trust' and 'behavioral trust' is similar to that of 'perceived risk' and risk taking. The explanation for the relationship between 'subjective trust', 'perceived risk' and 'risk taking' is that "A perception of trust indicates a low level of risk, which then makes the subject more willing to undertake the risk and thus grant trust" (Das and Teng (2004, 111). It means that trust encourages the trustor to take risks. Thus, based on the discussion above, the final proposition is formulated:

Proposition 4: The higher level of subjective trust that a Trustor experiences in a Trustee, the more risks the Trustor may be prepared to accept in the relationship with its Trustee, and conversely.

Trust Dimensions as Bases for Trust Development

The wide stream of literature focuses on the creation of trust in the relationships between the partner organisations (e.g. Doney and Cannon, 1997; Dwyer et.al., 1987; Håkansson, 1982; Morgan and Hunt, 1994; Moorman et al., 1993). Whilst leaders play the primary role in establishing and developing trust, intuitively, interpersonal trust is a central to trust-building between partner organisations. Van de Ven and Ring (2006) stated that interpersonal trust building is a developmental process: "It requires careful and systematic attention to the concrete processes by which personal relationships emerge between transacting parties" (Ring and Van de Ven, 1994, 93), and the practical actions that managers need to take in order to build trust are described by Long et al. (2003) as "mechanisms that individuals use to assure others of their capabilities, their interest in accommodating others’ needs and their willingness to fulfil promises made to others" (Long et al., 2003, 13).

Van de Ven and Ring (2006) also argued that in inter-organisational relationships reliance on trust takes place between individuals in varying degrees and for different things.
The ability to rely on trust provides security to relationships by increasing flows of information between individuals and their organizations and decreasing of uncertainty. It also leads to the reduction of agency and opportunity costs and managerial flexibility. Authors argue that an ability to rely on trust in inter-organisational transactions is related to the choices the parties made in the approaches to governing their relationships. (Van de Ven and Ring, 2006)

As Murphy (2006) posits that it is the micro scale where individuals evaluate influences on an exchange relationship such as risks, benefits, performance, and institutions in order to make a decision to trust. While trust relationships at a micro-level are constrained and enhanced by processes at a macro-level (Sitkin, 1995), trust between organisations can be affected by arrangements at the micro-level where organisations’ representatives relate to each other, i.e. how individuals interact (Fichman and Goodman, 1996; Zaheer et al., 1998). Therefore, trust-building process requires a multiple level of analysis in order to thoroughly conceptualize related phenomena.

Apparently, trust is often easier to breach than it is to build. Therefore, it is a widespread belief that trust is fragile. In this respect Slovic (1993) stated: "It is typically created slowly, but it can be destroyed in an instant – by a single mishap or mistake" (Slovic, 1993, 677). He separates two types of information: (1) related to negative (trust-destroying) factors, and (2) positive (trust-building) factors. Arguably, perceived risks inherent in an inter-organisational relationship could be considered as factors negatively affecting trust in the relationship. Therefore, assuming that, perceived risks differ, depending on the situation or stage of relationship, it is possible to conclude that trust varies in its forms and level within the process of relationship development.

Thus, trust may have different forms in different relationships deriving from the calculus of gains and losses to emotional reactions based on attachments and identifications between individuals (Rousseau et al., 1998). Thus, Rousseau et al. (1998) proposed a model which depicts the three basic forms of trust: (1) ‘calculative’, (2) ‘relational’, and (3) ‘institutional’. Authors argue that trust in a particular situation or stage of relationship development can mix several forms together.

Another view on trust dimensions is proposed by sociologist Zucker (1986). Borrowing his words, he researched ‘the production of trust’ and suggested three different ways in which trust can be produced: (1) ‘process-based trust’, (2) ‘characteristic-based trust’, and (3) ‘institution-based trust’. In compliance with the division introduced by Zucker (1986), it could be assumed that trust in partner at the initial stage of the relationship development is based on institutions, when there is a lack of other trust instruments, as well as ‘characteristic-based trust’, whereas at the later relationship stages the development of ‘process-based trust’ will be more significant.

During the relationship the depth of trust may vary significantly, and certain relationship phases are more important for trust-building than others. First contacts and first interactions between parties proved to be increasingly important in the process of trust building. (Halinen, 1997) Similarly, theorists McKnight et al. (1998, 473) conceive that “the most critical time frame for organizational participants to develop trust is at the beginning of their relationship”.

Thus, based on prior trust research, McKnight et al. (1998) proposed a model of initial trust formation which depicts specific relationships among two cognitive processes and several trust-related constructs. By ‘initial’ trust they mean trust formed at the beginning of relationship between organisational participants unknown to each other. Hence, initial trust "will not be based on any kind of experience with, or firsthand knowledge of, the other party” (McKnight et al., 1998, 474). Authors denoted five research streams providing a basis for understanding of initial trust formation: (1) ‘calculative-based trust’, (2) ‘knowledge-based trust’, (3) ‘personality-based trust’, (4) ‘institution-based trust’, and (5) ‘cognition-based trust’ (trust derives through cognitive cues or first impressions).
However, knowledge-based trust is not considered as a part of the model of initial formation of trust by McKnight et al. (1998) as it is assumes that relationship participants have no experience of interaction. Hence, there is no ‘firsthand knowledge’ of each other acquired through interactions. Whereas ‘second-hand knowledge’ (i.e. reputation) is addressed as ‘categorization process’ in the model.

To sum up, trust in inter-organisational relationship can have the various forms which are dependent upon the stage of relationship development. Apparently, several forms of trust may be combined together and these combinations vary in different relationship stages. Figure 5.2.2. presents the overview of the diversity of trust forms.

The development process of relationship trust comprises both formal and informal processes which take place within all three stages of relationship evolution. The formal process aggregates the following form of trust: ‘institution-based trust’, ‘calculus-based trust’, and ‘process-based trust’. ‘Process-based trust’ is related to ‘relational trust’ and ‘knowledge-based trust’. By definitions, these forms of trust imply firsthand knowledge based on experience. The formal process may possess an active or passive character. Thus, for instance, searching for the verifiable information about a potential partner in the Internet would be defined as passive, whereas active searching would be visiting to a business premises or production shop floor.
The informal process is only associated with inter-personal trust and comprises the tacit trust forms such as ‘cognition-based trust’, ‘personality-based trust’, and ‘characteristic-based trust’. “Institution-based trust” and ‘personality-based trust’ formation processes lie outside the scope of this research.

Proposed Conceptual Framework

The conceptual framework was constructed on the basis of the vast body of literature on main research concepts (see Figure 5.2.3.). Focusing on the particular research concepts and excluding many others, the critical variables were singled out for the empirical analysis and the explanation of the phenomenon. Thus, this framework is a simplification of the causal relationships between the main research concepts, which provides a basis for the assessment of knowledge available and its compliance with empirically gained data. It depicts research questions such as the relationship between the perceived risks and subjective trust and the influence of trust scope on the willingness to co-operate. The conceptual framework contains two areas for the empirical research: the first depicts the concepts to be determined, and the second illustrates the concepts with proposed relationships to be examined.

Figure 0.3. The proposed conceptual framework.

The framework attempts to consider partially cultural and environmental factors incorporating concepts such as trust antecedents and risk sources occurring in the relationship between partners from different countries and cultures. It is assumed that the cultural national values are predictors of trust antecedents, and the environmental conditions are to a large extent responsible for risk sources. However, it ignores the potential effects of individual differences in risk perception and propensity to trust on the willingness to co-operate and risk taking, since these effects are mostly significant at the initial stage of relationship life cycle.
Based on the empirical research results obtained by Gill et al. (2005) the relation between the propensity to the trust of individuals and trust is moderated by a boundary condition such as situational strength. Specifically, in the situation when information about trustworthiness of the partner is ambiguous, propensity to trust correlates positively with intention to trust, and does not correlate when information is evident. According to the authors, the nature of this relation changes over time as information about the trustee becomes available. Usually, initial trust between individuals is based on limited information and little observations of each other’s behaviours (McKnight et al. 1998; Gill et al., 2005).

Thus, when partners interact, they make a risk taking positive assumptions about each other’s performance and outcomes to be achieved. At the initial stage of relationship a certain degree of risk always exists due to not knowing what to expect in terms of outcomes. When outcomes meet expectations, more positive information becomes available, which in turn reinforces trust. At the same time, uncertainty and perceived risks reduce, as a result of increased familiarity. This becomes a part of relationship life cycle, increasing the chance to continue the relationship.

The general argument is that the co-operation will continue from one stage to another as long as the trustor is able to rely on trust in the presence of relationship risks and an increase in trust occurs during interactions. The higher level of subjective trust in inter-organisational relationship provides the trustor with confidence to continue the relationship recognizing that perceived risks may cause short-term losses but not threaten the trustor’s long-term interests.

RESEARCH PROJECT

Project objectives

The research aims at deeper understanding of the role of trust as a counterweight to risks perceived in the project-based relationship development between Finnish and Russian construction companies networking in Russia. The research comprises the following specific objectives:

(1) to identify the perceived risks and their sources in different stages of inter-organisational relationships,
(2) to determine the necessary preconditions for trust development in inter-organisational relationships,
(3) to examine the relation between subjective trust and perceived risks in the development of inter-organisational relationships, and
(4) to explore trust development process and specify the nature and distinctive features of it in the context of Russian culture.

Research methodology

The research is divided into three phases (see Figure 5.2.4.): 1) theoretical literate review, 2) first stage of empirical research: a pilot survey focusing on the research questions RQ 1 and RQ 2, and 3) second stage of empirical research: an interview-based multiple-case study focusing on both quantitative and qualitative issues (RQ 3 and RQ 4).

Foremost this research has both explanatory and explorative characters, as it aims to explain the role of trust as a counterweight to risks perceived in the development process of project-based inter-organisational relationships and to explore the process of trust development. It must be emphasised that the aim of the research not to achieve statistically generalisable results but to build conceptual frameworks that are created
through theoretical reasoning and the comparison of existing theoretical knowledge with the empirical evidence.

Figure 0.4. The overview of research methodology structure.

It is obvious from the above, that the research aims and research specific questions are the primary guideline in the choice of methodology, and different research questions might require different methodological approaches. Since the general aim of this research is to explore complex processes and provide more in-depth knowledge to the research questions analysing in detail how individuals perceive and make sense of things that are happening in inter-organisational relationships, it may be argued that the qualitative approach is most applicable in the course of this research (Eisenhardt, 1989; Yin, 1989). Further, the pre-structured approach to qualitative research was chosen, and an 'a priori' framework (see Figure 5.2.3.) with a set of initial propositions was generated from the existing theoretical literature.

In order to reach the research aims, the empirical part of research was divided into two stages namely the phase two and phase three (see Figure 5.2.4.). The aim of the phase two of the research is to create a solid pre-understanding of what actually happen in the development of relationships between organisations in regard to risks and trust preconditions as well as the particular sources and preconditions under which they take place. Thus, the primary focus of this phase was research questions (RQ 1) and (RQ 2) (see Figure 0.5). The pilot survey with an 'expert group' is applicable for the establishing pre-understanding of the research phenomenon especially when the research process is uncertain and complex. It allows pre-testing and refining of initial research questions, and the early evidence may suggest how to proceed to the subsequent phase of data collection. Thus, the pilot survey was chosen as a research strategy for the phase two to provide a background for a more focused investigation and to minimise the possibilities of any failure in the research. Even though, the limited number of respondents were interviewed, the insights gained from interviews were generated a sufficient pre-understanding of the research phenomenon. The conceptual 'a priori' framework and the early propositions originated from the literature analysis were pre-tested through empirical validation. The scope of relationship risks and trust preconditions was identified with the purpose to utilise it as a framework for estimations in the phase three of research. On conclusions of this research phase, interview questions were revised and the questionnaire was drawn up.
Finally, an appropriate data collection protocol for the further stage of empirical research was established.

As for the aim of the phase three, it implies the examination of a specific relation between key concepts of the inter-organisational relationship development such as trust and risk and concerns the processes within inter-organisational relationships development which are managed by people. This research phase is dedicated to the questions (RQ 3) and (RQ 4) (see Figure 0.5). While the pre-structured qualitative approach is chosen for this research, the selection of research strategy needs to reflect it. Thus, the case study is an appropriate strategy for the research in the phase three, as according to Yin’s (1989, 30) notion, following theoretical propositions that “direct attention to something that should be examined within the scope of study” is the most preferable strategy to conduct a case study (Yin, 1989, 30). A further rational for the selection of the case study strategy is grounded on the research problems which are based on ‘what’ and ‘how’ questions and concern a contemporary phenomenon in the context of its real-life. The value of case studies is that they are appropriate for the exploration of complex relationships and constructs when understanding may not be possible to achieve applying quantitative methods (Eisenhardt, 1989; Gerring, 2004; Ghauri and Grønhaug, 2005). Furthermore, case study enables an investigation to retain meaningful characteristics of real-life events like organisational and managerial processes and international relations (Yin, 1989).

<table>
<thead>
<tr>
<th>RESEARCH QUESTIONS</th>
<th>ANALYSIS</th>
<th>METHODS</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ 1 Inter-Organisational Relationship risks</td>
<td>Pilot Survey / Qualitative Analysis</td>
<td>'Expert Group' Interviews</td>
</tr>
<tr>
<td>RQ 2 Relational Trust Preconditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RQ 3 Relation between risk and trust</td>
<td>Multiple-Case Study / Qualitative Analysis</td>
<td>Semi-structured Interviews</td>
</tr>
<tr>
<td>RQ 4 Trust development process</td>
<td></td>
<td></td>
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</tbody>
</table>

Figure 0.5. The overview of empirical research methodology.

To sum up, the multiple-case study was chosen to provide empirical basis for the research aims in the phase three: first, developing a framework describing the role of trust as a counterweight to risks perceived in the development process of project-based inter-organisational relationships via continuous comparison the 'a priori' framework with propositions and the empirical evidence (RQ 3), and second, building an incorporated framework of trust development relying on existing theoretical constructs and pre-defined concepts (RQ 4). The overview of empirical research methodology is illustrated in the Figure 0.5., where the phase two of empirical research contains the pilot survey and the phase three - multiple-case study.

While the qualitative methodological approach was applied in the course of this research, the semi-structured interviews are chosen as the primary source for data collection to provide a more qualitative insight into the research questions. Interviews were
conducted face-to-face with the purpose to ensure a high response rate and data reliability in both stages of empirical research. Interviews are the most powerful method for accessing and understanding beliefs, values and behaviour of individuals (Rubin and Rubin, 2005). The usefulness of interviews is also acknowledged, when understanding of past and sometimes unobservable events is in question, and formal records of events are not available (de Vaus, 2001). Thus, the strategy to conduct the pilot survey and multiple-case study was interview-based.

The sampling of respondents for the phase two of the research (Pilot Survey) was made on the basis of specific groups representing Finnish and Russian experts, consultants and senior managers mainly from Finnish construction companies. The main sampling criteria adopted being that of direct knowledge and expertise in the construction field and long-term experience in doing business in the Russian market. The total number of selected experts was ten. The interviewing time was for one to two hours. Most interviews were done outside interviewees’ working premises, but in places comfortable for them and permissive to focus and discuss on the research topic confidentially.

The selection of case companies for the phase three of the research was carried out finishing the pilot survey. The motivation for this research was to generate results that can be generalized theoretically to the larger population of Finnish construction companies operating in the Russian market. Thus, case selection was purposive. Cases were selected from a specified population for the theoretical rather than statistical reasons identifying particular cases that correspond to research phenomena (Eisenhardt, 1989; Yin, 1989). ‘Theoretical replication’ logic was adopted selecting specifically contrasting case companies (Yin, 1989). Thus, the research population was defined as the subsidiaries of Finnish companies representing construction and related service industries operating in the Russian market with headquarters in Finland. The seven case companies were selected out of the pre-specified population with the aim of identifying diverse cases, i.e. cases of both small and large companies with differences in the nature of services and the extent of experience in the Russian market.

The sample of respondents was conducted based on the representativeness of different management levels and nationalities. Practically, the sample consisted of three to seven informants in each case company and represented both Finnish and Russian senior and middle managers as well as key personnel. In total 35 interviews were carried out over the course of nine months during the year 2009. The interviews were conducted at the premises of the case enterprises located in Moscow and Saint-Petersburg. Interviewing lasted for one and a half to two hours each and took from one to two days in each case company.

The questionnaires for the experts and representatives of case companies were written in the Finnish and Russian language. Interviews were conducted in the language most comfortable to participants, i.e. interviews with Finns were held in the Finnish language, whereas interviews with Russians were in the Russian language.

RESEARCH RESULTS AND INDUSTRIAL IMPACT

Results

Identified risks and trust preconditions

A result of interviews with the ‘expert group’ in the first stage of empirical research was the identified scope of perceived risks in different stages of inter-organisational relationship development. Thus, discovering risk outcomes and causative events (risk sources) were made, since it involves risk identification (Rowe, 1988). This risk scope (Table 5.2.1.) was utilised as a framework for risk assessment in the second stage of empirical research
conducted by managers from Finnish case companies, where probabilities of occurrence were assigned to the each defined risk outcome and the causative event.

The acquired data were analysed within each case company and across seven cases. The identified risk outcomes and causative events were prioritised according to their probabilities within every defined stage of inter-organisational relationship development (I Exploration, II Expansion and III Commitment stages). The identified and prioritized risk outcomes and causative events are introduced in the graphs (see Figure 5.2.10 – Figure 5.2.12). The values represent the average values of total assessments of risk probabilities conducted by all respondents from all seven case companies.

Table 0.1. The scope of identified risk outcomes and causative events.

<table>
<thead>
<tr>
<th>Risk outcomes</th>
<th>Causative events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of losing a customer and/or reputation</td>
<td>quality problems in partner’s products/services and/or delivery performance partner’s unskilled labour and/or management insufficient communication and information exchange smaller size of partner organisation (e.g. limited product. volume, resources) loss or changes in key personnel of subcontractor’s organisation growth of diversity of partner’s activities absence of common infrastructure (e.g. data processing) negative appraisals or rumours after contract termination</td>
</tr>
<tr>
<td>Risk of wasting time and resources due to relationship termination</td>
<td>no verifiable information about subcontractor’s financial state subcontractor’s underestimation of own resources, potentials and/or capabilities breach of contract payment or other commitments limited past experience in collaboration with the subcontractor undefined common strategic objectives absence of relationship rules and defined management roles and responsibilities insufficient knowledge about subcontractor’s product and/or service quality higher level of cultural or behavioural distance in relationship lack of commitment of senior managers change in ownership of subcontractor’s organisation</td>
</tr>
<tr>
<td>Risk of losing competitiveness and/or core capability</td>
<td>leakage of confidential information to competitors through the subcontractor partner’s narrow core capabilities and inflexibility losing skilful personnel to a partner partner’s learning useful capabilities and acquiring commercially valuable information partner’s unwillingness to learn and to change no development due to explicit expectations of a partner lack of customer feedback received through a partner</td>
</tr>
<tr>
<td>Risk of dependency in relationship with a partner organisation</td>
<td>getting accustomed to partner’s level of costs and/or action mode frauds of local management through uneconomic or illegal agreements with partners lack of alternative reliable and capable partners in the market</td>
</tr>
</tbody>
</table>

Table 0.2. The scope of identified trust preconditions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Trust Preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational</td>
<td>successful cooperative history high quality of performance stability in key personnel openness and transparency in decision-making process contract fulfillment financial stability communication of good quality (openness, same language, etc.) quick responsiveness to any sign of problems good reputation in the market compatible frames of reference no significant cultural and/or behavioural distance effective capacity utilisation common interaction rules</td>
</tr>
</tbody>
</table>
short physical distance between partner organisations
flexibility with changes in technology and environmental demands
stability in ownership
sufficient size/capacity of partner organization

| Personal (Managerial) | prior experience of relationship
| integrity
| objectivity
| capabilities and competence
| openness and predictability
| personal recommendations
| mutual commitment (e.g. to invest)
| shared norms and values
| personal chemistry and/or sympathy
| familiarity (friendship, studies, place of birth, religion, etc.)

Determination of the trust preconditions associated with positive changes in general level of inter-organisational trust was drawn from existing literature and interviews with the ‘expert group’. Determined trust preconditions represent two levels: personal (managerial) and organisational (see Table 5.2.2.). These preconditions were evaluated by managers from Finnish case companies in the second stage of the empirical research. The data obtained were analysed within each case company and across seven cases. Thus, the graph in Figure 5.2.13 depicts an overview of the determined preconditions associated with positive changes in the Finnish contractors’ general level of trust to its Russian subcontractors, whereas the graph in Figure 5.2.14 demonstrates how identified risks negatively affect on the trust level. The values represented in both figures indicate the average values of total estimations made by all respondents from all seven case companies.

**Relation between subjective trust and perceived risk**

To explore the relation between subjective trust and perceived risks inherent in inter-organisational relationships a set of propositions deduced from the literature and inductive observations of a number of inter-organisational relationships over time were tested in the research phase three or second stage of the empirical research. Thus, the ‘a priori’ conceptual framework (see Figure 5.2.3.) was tested explaining empirically the relation between trust and risk.

<table>
<thead>
<tr>
<th>COMPETENCE TRUST</th>
<th>high</th>
<th>low</th>
</tr>
</thead>
</table>
| high             | - perceived relationship risks are marginal
|                  | - high confidence in business relationship |
|                  | - perceived performance risks are high
|                  | - doubtful business relationship |

<table>
<thead>
<tr>
<th>GODWILL TRUST</th>
<th>high</th>
</tr>
</thead>
</table>
| low           | - perceived relational risks are high
|               | - unstable business relationship
|               | ⇔ relational risks management (e.g. control mechanisms)
|               | - perceived relationship risks are high
|               | - no confidence
|               | - business relationship too risky |

Figure 0.6. The matrix of different types of trust and risk relation.
Additionally, four propositions were tested against the data derived from interviews with managers in seven case companies and found varying levels of support in the data. Strong support was found for the propositions 1, 2 and 3. More specifically from the perspective of general contractor, managers experiencing the higher level of trust in a subcontractor are more willing to co-operate, whereas managers perceiving more risks in the relationship with a subcontractor are less likely to develop this relationship. Finally, proposition 4 has received weak support from the results. It was found that the higher level of trust has a positive but insignificant effect on accepting risks by Finnish general contractors in the relationships with their Russian subcontractors.

According to the definition of trust applied in this research, trust in inter-organisational relationships comprises two dimensions such as competence trust and goodwill trust. Combining two trust dimensions in different ways, a simple scheme of categorizing the relation between trust and risk that can be found in inter-organisational relationships is formed. The matrix presented in the Figure 5.2.6. proposes different types of relation between trust and risk in business relationships and can be used for classifying inter-organisational relationships.

Trust development process

The trust development process between partner organisations goes along with the relationship life cycle. An initial relationship between partner companies in the construction field develops through defined three stages presented in the literature review (see Figure 0.1): exploration, expansion and commitment. In accordance with the process of relationship development, the process of trust-building was divided into the following three stages: initiation, growth, and maturity.

Since inter-organisational relationships develop along different stages, the probability level of perceived risks in interactions and their affect on subjective trust between co-operative parties change along the stages of inter-organisational relationships. And, because the nature of relationship risks varies over time (see graphs in Figure 5.2.10 - Figure 5.2.12), it was assumed that the manner in which trust is established (i.e. trust preconditions) is also different.

According to the data obtained from the semi-structured interview with managers in the second stage of empirical research, in the initial relationship, both competence trust and goodwill trust develops in different ways dependent on the stage of relationship development process. Thus, the formation of subjective trust at each stage of relationship was defined. The Figures 5.2.7 – 5.2.9 introduce the trust development process bringing up a range of most significant trust preconditions determined at different relationship stages.

In the initial relationship, at first, trust has to be achieved, then maintained and rebuilt when changes occurs. Both competence trust and goodwill trust develops in different ways dependent on the stage of relationship development process. Thus,

- at the exploration stage of the initial relationship development trust grounds on a reputation (i.e. ‘second-hand knowledge’) and the experience from first interactions;
- at later stages (expansion and commitment) based on experience from prior interactions (i.e. ‘firsthand knowledge’).

Trust is more likely to be extended to a potential partner organisation when that organisation has got a reputation in the market place (Weigelt and Camerer, 1988; Ring, 1997). Reputation is ‘second-hand knowledge’ (McKnight et al., 1998), which transfers very easily among firms in an industry through words and actions (Doney and Cannon, 1997). A person resorts to ‘trusted informants’ who have been involved with the potential partner and found this partner trustworthy, and to ‘information from one’s own past dealings with that person’ (Granovetter, 1985). Thus, participation of an organization in the prior successful co-operation is building up a reputation as a good cooperation partner.
It is widely believed in the literature that **prior experience** is a necessary precondition of trust. Ring (1997) posits that even if trust does not already exist at the beginning of relationship, it may emerge from formal and informal transaction processes. Anderson and Narus (1990) also support this statement saying, "cooperation leads to trust which, in turn, leads to a greater willingness to cooperate in the future, which then generates greater trust, and so on" (Anderson and Narus, 1990, 54). Many scholars have reached a conclusion that trust develops incrementally as parties repeatedly interact (e.g. Gulati, 1995(a); Lewicki and Bunker, 1996). Thus, trust is a history-dependent process, which changes in the course of cumulative interactions between co-operative parties (Rousseau et al., 1998).

**Initiation trust stage**

Based on the analysis of empirical data the initiation trust phase proved to be critical to the chances of creating trust in inter-organisational relationships. The knowledge of a trustee's reputation and the experience from first interactions enables a trustor to evaluate the characteristics of a trustee organisation and characteristics of relationship with the trustee. First impressions are of great importance. The behaviours of key personnel representing a potential partner organisation (trustee) are the subject to constant observation and explicit evaluation during first interactions. Characteristics of the trustee such as organisational capabilities and professional qualities of key personnel involved in the relationship development are clearly most significant preconditions determining subjective trust at the exploration stage. The initial stage of trust development is introduced in the Figure 2.5.7.

**Growth trust stage**

The experience gained from prior interactions provides a basis for monitoring of both characteristics of a trustee and characteristics of the relationship with the trustee in subsequent stages relationship development. The growth in trust is likely to depend on the degree to which these characteristics at both organisational and individual level exceed the expectations of the trustor. At the expansion stage of inter-organisational relationship development, integrity and orientation to problem-solving of a trustee's key personnel as well as the quality of organisational performance are the most significant preconditions for trust identified by managers from the Finnish case companies. In this research, the integrity refers first of all to a fulfilment of contract and other obligations by the trustee’s key personnel. The growth stage of trust development is shown in the Figure 2.5.8.
Figure 0.7. Trust development at the exploration stage of relationship

Figure 0.8. Trust development at the expansion stage of relationship
**Maturity trust stage**

The positive experience from the interactions with a trustee at the previous stages helps a trustor to build a foundation for deeper trust at the commitment stages of inter-organisational relationship. The figure 5.2.9 introduces the maturity trust phase in the trust-building process bringing up a range of most significant trust preconditions determined by managers from Finnish case companies. Thus, along with the quality performance and the stability in key personnel, characteristics of relationship with trustee at individual level which consist of integrity and social contacts have appeared to play a key role in deepening and maintenance of generated trust.

Interestingly, the absolute majority of Russian respondents who represent Finnish case companies trust more in co-operation with Finnish partners than Russian operating in the Russian market, even though they interact personally with Russian managers in both Finnish and Russian companies. It means that differences in the corporate cultures and management styles existing in Finnish and Russian companies can be more important determinants of trust in inter-organisational relationships than differences in the national cultures.

None the less, the national cultures have a certain effect on the process of trust development. A good example of it is as follows: “A chance you only get once. Hence, there is no possibility of being mistaken.” (Quotation from the interview with Russian manager)

![Figure 0.9. Trust development at the commitment stage of relationship](image-url)
Implementation and exploitation

Since the relationship between perceived risk, subjective trust and willingness to co-operate in inter-organisational settings were explored and proposed relations were tested empirically within the proposed conceptual framework (see Figure 5.2.3), the tested and improved framework can be useful for managerial decision making in the process of relationship development.

While establishing initial inter-organisational relationships the important decision is to be made concerning the choice and availability of the appropriate co-operative partners. Moreover, the rapid changes in the current market require forming these relationships very quickly, often based on limited information. Then, the unpredictable character of initial relationships and the likely costs to an organisation from the opportunistic behavior and/or lack of competences of new partners may lead an organisation to considerable losses. This highlights the need for recognition of risks inherent in such relationships and their assessment. Being aware of relationship risks and their sources is a precondition for successful business decisions in co-operative relationships, and accepting the right risks may lead to gains. Hence, identification and assessment of relationship risks is an essential part of decision-making process, and therefore, it is a major managerial activity in the relationship planning.

Thus, the scope of identified risk outcomes and causative events introduced in the Table 5.2.1 could be applied as a check list for Finnish managers responsible for the relationship development with their Russian partners.

As it is learnt from the literature, trust is indeed an important aspect of successful inter-organisational relationships, and the ability to create, maintain, and increase trust between partner organisations is one of the most critical factors to succeed. Additionally, building trust is time consuming process which is costly to maintain, it may be even harder when cultures are dissimilar. Therefore, understanding how trust forms initially, how it can be maintained over time, and what the distinctive features of trust development process are in the context of national culture should be a prime concern for the managers involved in the relationship development.

Thus, the determined trust preconditions in the Russian cultural context provide business managers of Finnish companies with insights and a practical guide they can use to build trust with their Russian partners in the more efficient way. In particular, the scope of determined trust preconditions could be adopted by Finnish managers in the measurement of trust to their subcontractors.

For managers, the following important lessons can be drawn from the data analysis:

• Adequate attention must be paid to the importance of trust development processes within relationship evolution.
• Risks associated with the inter-organisational relationships have to be managed as an integral part of trust development process.
• “Haste makes waste”. Being aware and appropriate use of trust development processes allow to minimize the “waste” of time.
• Required level of formal processes cannot substituted by reliance on inter-personal trust of the informal process.

CONCLUSIONS

This research contributes to the body of knowledge in the areas of project-based relationship development and relationship marketing. There are only a few studies that offer an integrative view of relational constructs of inter-organisational relationship development. This research tested the strength of the trust construct in the presence of risks and
confirmed the important role that trust plays in counterbalancing risks perceived in the inter-organisational relationships. The research results support the Smith’s et al. (1995) argument conceptualized by many scholars that trust is the immediate antecedent to the development of successful long-term relationship between co-operative partners. Although in the literature, trust is viewed as a vital concept when there are significant risks involved in relationships (e.g. Das and Teng, 2001; McEvily et al., 2003), less attention is given to the effect of perceived risks on the relationship development. In this research, perceived risks are found as moderators in positive influence of trust on the inter-organisational relationship development, i.e. the ‘willingness to co-operate’ (see Figure 5.2.3.).

While interpreting the research results, cautions should be made in making too broad of an interpretation due to several apparent limitations. First, it is widely admitted by researchers that qualitative research methods place certain constrains on the research findings. Although, the results reached from this research cannot be generalised statistically, the generalisation to theory or 'analytic generalisation’ by reflecting results with the theoretical base according to Yin (1989) is possible. Since the case study was based on the pre-established theory and the set of testable propositions, empirical findings were compared with this initial theory and generalised to that theoretical base.

Second, this study does not attempt to provide a comprehensive model of concepts related to the process of inter-organisational relationship development. Instead, it aims to expand the scope of the research on trust within inter-organisational relationships by introducing frameworks to only address specific research objectives introduced in the section Research Project.

Third, the research questions have been studied from only one side of the dyadic relationships between partner organisations. The most significant reason for that was the lack of dyadic responses due to unwillingness of respondents from general contractors (Finnish case companies) to make possible for the researcher to interview their subcontractors referring to ethical issues and business confidentiality. Therefore, it is not possible to analyse the real differences in perceptions between the informants across dyads in relation to the research issues.

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Figure 0.10. Risks and risk sources in relationships with Russian partners (Stage I).
Figure 0.11. Risks and risk sources in relationships with Russian partners (Stage II).
Risks and Risk Sources in Relationships with Russian Partners (Stage III)

Figure 0.12. Risks and risk sources in relationships with Russian partners (Stage III).
Figure 0.13. Positive effect on trust.
Figure 0.14. Negative effect on trust.
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6. Performance Measurement in Business Networks in Russia and in Finland (P6)

6.1 Towards management and leadership models for Russian business networks (Niittymäki, Lod, Tolonen)

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ABSTRACT

In Russian project business management and leadership models, as well as company performance, measurement indicators should be adjusted to Russian tradition and business culture. Networked companies seem to have extreme difficulties in applying matrix type organizations in Russia, as Russian management practices are based traditionally on strong and authoritarian leadership. However, clear and specific targets should be set to projects as well as strategic business areas. The targets and bonuses should be agreed with managers and staff throughout the company and the business network. In Russia, both leadership and personal networks within project stakeholders have more emphasis than in Finland, because personal relations to authorities’ organizations, for example, are needed at every stage of the construction project. Therefore, managing construction business, consisting of several projects, is extremely challenging in Russia. A trial method for planning strategy, setting and implementing strategic targets for a business-networked company will be presented.

INTRODUCTION

The purpose of this paper is to describe management and leadership models, which are being used in Finland for construction project business and how these models should be adjusted into Russian business environment. The first strategic research question is what are the main features of management and leadership models and performance measurement indicators (PMI) used at present in Finland in construction project business, and secondly how these models and PMI should be adjusted to Russian business environment. This paper is based on STROI Business Network project, which is still an on-going research effort.

Traditionally strategic planning and strategy implementation may be carried out with numerical models described below by setting measurable targets for each dimension. Many issues will affect target setting: results from the previous years, the country in question, and the political, economic, sociological, technological and environmental situation (PESTE) and development of these factors in the future. Variables to be monitored are selected in a way that these are the key success factors. Management issues and different numerical indicators have a strong emphasis in decision-making and target setting. In construction companies, business consists of projects. Setting targets to projects should be related to the company rewarding system and projects should be integrated into other activities of the company.

Meeting the commercial objectives of companies with projects and alignment of
The Russian situation is more complicated: the political, economic, sociological, technological and environmental situation is totally different and partly unpredictable. Setting exact targets is very difficult as e.g. prices of raw materials may change more than 50% in year, exchange rate may drop 30% (2008) or even more etc. Also, business culture is totally different: power and responsibility is concentrated on the main director of a company even in according to Russian law, tradition supports strong and authoritarian leadership; former acquaintances are highly appreciated as a part of business culture as well as in common life.

Recent research (Suominen 2009) indicates that the art and practice of managers’ everyday strategy usage is creative: some managers use it in order to promote their own aims; others play with strategy while talking. On the other hand, strategy is understood at a very personal level in order to serve as a forum to deal with and build up a director’s own identity and existence. This shows that there is room for rethinking strategic management and setting goals for companies and business networks.

**LITERATURE REVIEW**

Types of networks to be examined have been classified as three types: Supply-chain, Hub and Spoke and Peer-to-peer (Figure 6.1.1). For construction business and projects Hub and Spoke types networks are most relevant.

![Topologies of Business Networks (VTT)](image)

Figure 6.1.1. Topologies of Business Networks (VTT).

Planning, implementation of strategy and performance management (PM) in companies and organizations have been research targets for decades: performance expectations may be described as the derivative of forecasted potential (Ansoff 1979, 169), competitive advantage and value chain (Porter 1985) and implementation strategies (Kaplan&Norton 2003, 2007). Later on, fast (agile) strategy and ma-
trix type organizations have gained extra emphasis (Doz&Kosonen 2008). Performance measurement (PM) can be defined as the process of quantifying effectiveness and efficiency of actions (Neely et al., 1995). It can be used to provide information about the status and development of business and as a tool for guiding employees’ work and learning about operations (Gotcheva et al. in Niittymäki et al. 2009).

**Performance measurement in companies and business networks**

Performance Measurement (PM) of a company and business networks has been examined. The conclusions are that network-level measurement is still in development stage (Figure 6.1.2).

![Diagram](image_url)

Figure 6.1.2. The development trends in performance measurement (Kulmala and Lönnqvist, 2006).

Network level performance methods have been introduced (e.g. Varamäki et al 2006). Also Leseure et al (2001) propose that performance can be measured at the level of organizational networks. These claim that benefits should be identified or fairly distributed for a network to perform effectively. These approaches are not actively used, as this issue is not obviously a short-term benefit of a hub-company involved.

Introduction to performance measurement in a company and business network is presented in Figure 6.1.3, Figure 6.1.4, Figure 6.1.5 and Figure 6.1.6.
Figure 6.1.3. Network scorecard approach (Gotcheva 2009).

3) The networked scorecard approach
(Järvenpää, 2009)

Figure 6.1.4. The main aspects of network performance measurement (Gotcheva 2009).
The main aspects of network performance measurement
(Sivadasan et al., 2002; Westphal et al., 2004)

- **Reliability of the partners**: Measuring whether materials, information or resources are delivered in the agreed cost, quantity, quality and time. There are also trust-related aspects of reliability, such as keeping information confidential when agreed, and no advantage is taken of the partners’ problems.

- **Commitment to the network**: Identifying the ability of network members to absorb problems of other partners, and coping with them.

- **Flexibility or the ability to respond adequately to a changing environment**: Measuring information and knowledge sharing, decision synchronization and incentive alignment among members of the network.

**Figure 6.1.5.** Structure of STROI Network project based in BSC thinking and 6 perspectives (Gotcheva 2009).

**From Balanced Score Card (BSC) to Network Score Card (NSC)**

**Business Sector**

**Vision of Business Network**

**In Finland: purchasing department**

**In Russia: gifts and services**

**In Finland: competition**

**In Russia: relationships**

**Network processes**

**Learning and growth**

**Network Resources**

**Network Culture**

**Finance**

**Customer**

**Figure 6.1.6.** Towards network performance measurement (Gotcheva 2009).
Managing human resources across cultures and networks

Finns and Russians have been compared according to Hofstede’s model by Hofstede and also by Russian researchers (Figure 6.1.7). In Finland power distance between boss and worker seems to be much smaller than in Russia, in Finland individualisms are somewhat higher than in Russia. However, there are also different results in Russia, see the white arrows; masculinity and avoiding uncertainty are higher in Russia.

Cultural differences Finland – Russia

(Source: www.geert-hofstede.com and Russian researchers Yu&N. Latov (2003) and A.Nautov (1996) are presented with white arrows according to Filinov et al 2009)

Figure 6.1.7. PDI (Power distance), Individualism (IDV), Masculinity (MAS) and Avoiding uncertainty (UAI) in Finland and in Russia. Different results given by Yu&N. Latov (2003) and A.Nautov (1996) are presented with vertical white arrows. (Filinov et al 2009).

Social networks in Russia have been described by A-M Salmi (2006). Social networks in Russia used to be very important as Russian work collective used to give workers and their families kindergarten places, health care, cultural events, sporting and leisure time activities and even housing. State and municipal social security has been a target area for development since 1995, but there is still room for improvements from companies.

Business networks and interfirm co-operative behaviour has also been studied in Finland in recent years. Three main theories for explaining phenomenon have been presented: Transaction Cost Theory, the theory of Resource Based View and the theory of Social Capital (Vuorinen, T. 2009). Also, decision-making style (Filinov 2003) and attitude towards the learning organization (Senge et al. 2005) affect the interfirm co-operative behaviour in construction business and projects. In the construction project business the present financial situation has to also be considered.
RESEARCH PROJECT

Project description and objectives

The first strategic research question is what are the main features of management and leadership models and performance measurement indicators (PMI) used at present in Finland in construction project business, and secondly show how these models and general approach and should be adjusted for Russian business environment.

Research methodology

Traditionally the Russian approach is quantitative and lately the Finnish approach tends to be qualitative. We have selected the constructive approach (Kasanen et al 1991). Based on this methodology, our approach in this project has eight phases: 1) Building up theoretical models, 2) Observation in companies, 3) Academic piloting, 4) Piloting with adult students, 5) Piloting with companies, 6) Development and tailoring of models, 7) Dissemination of results, and 8) Market test of achieved models.

1. Multi-method, as qualitative and quantitative methods are used.
2. Multi-investigator, as there are researchers in STROI Network project
3. Multiple data sets, as there are 10 different data sets.
4. Also, multiple theory triangulations are possible due to the numerous theories in place in different business organizations in Finland and Russia.
Triangulation is still going on. The aim is to combine at least two different approaches in order to achieve multi-method, multi-investigator, multiple data set or multiple theory triangulation in all perspectives of the research project. Any sort of triangulation will give extra reliability for the results, but it will also need more effort from the researchers and companies involved. Companies will get more relevant and reliable information for their future use and decision-making. So far, 181 interviews and surveys answers have been received and analysed. For the learning organization, in total 57 answers for questionnaires were received from Finland (20) and Russia (37). For performance measurement questionnaires 16 answers was received; seven for the Webropol questionnaires and nine for interviews; all from Finnish companies.

**RESEARCH RESULTS AND INDUSTRIAL IMPACT**

**Planning and implementation of strategy and performance measurement**

Planning strategy in project base business depends on various perspectives considered and expectations about their future development (Figure 6.1.9). The most important perspectives are selection of business sector and country, successful vision for a company and business network, managing human resources within companies and business network, internal development and learning within network, keeping up customer orientation and also setting measurable targets within companies and business networks. Implementation of strategy will be possible, if targets are set and agreed upon in a way, that everybody will understand their objectives and responsibilities within project business.
Multinational companies (MNC) in construction have developed their strategy implementation and performance measurement successfully, as many of these have rewarded their owners with excellent dividends and many of these companies belong to favourite employers among young graduates. Actually, these companies are working like huge networks as from 50-70% of their turnover consist of purchases from other companies or industry sectors. The model described below has been derived from practices of several MNCs also working in Russia (Figure 6.1.10). The model is a base to develop performance measurement indicators (PMI) and strategy implementation tools for companies working in construction project business. Suppliers and subcontractors view are taken into account in dimensions 6, 7, 8 and 9.
If companies are managing their own activities with this kind of approach, their behaviour will be predictable toward subcontractors and suppliers. Dimension 6, Share of deliveries in time, 7 Successful deliveries, 8 Average time of delivery, and 9 Network meetings implemented ‘are important for subcontractors or suppliers. Information about market situation during network or individual supplier meetings is crucial for survival of suppliers in changing situations.

The models described above (Figure 6.1.10) are being used in Finland, however many companies are still measuring only financial targets such as profit or EBIT (earnings before interest and tax) and return on capital employed (ROCE). Recession time may bring financial aspect even more important as finance is the scare resource.

According to Popov (2009) Russian consults and experts (Ambramova, Amidi, Andreeva, Kristiapova, Visnyakov) specializing on BSC implementation claim, that Balanced Scorecard (BSC) type performance measurement (PM) system can be used to monitor any business or firm department, if a company has developed a clear strategy. Strategic uncertainty, lack of trust and hostility in knowledge sharing still remain typical trait of Russian firms and general environment. Often the BSC perspectives should be redesigned to suit Russian business environment and specially to take account of political embeddedness, which is especially strong in Russian construction sector.
Managing human resources across cultures and networks

Managing human resources in Finland and in Russia has some common features, but many issues are different for various reasons. Russian researchers (E.g. Shek- snia 2003) have taken up the following issues based on the Hofstede approach:

- Very often employees agree to inequality of power distribution in organization;
- Typically Russian companies are strong and hierarchical with a power concentration in the hands of top management;
- Generally employees strongly depend on the leader’s will;
- There are communicative barriers between the departments of organization;
- Personnel loyalty and commitment are highly evaluated;
- Bureaucratization and formalization are regarded as the ways of protecting employees from the chief will;
- There is unclear decision-making process.

Interviews of Finnish and Russian company representatives have brought up the following issues (Minina, Krupskaja, Dmitrienko, in Niittymäki et al (2009), 16):

Differences in national cultures influence the development of the Finnish HRM practices in Russia. There are two ways of work: either focus and copy Russian practices or, what is more preferable, develop standard corporate HRM practices in Russia with some improvements.

In Finland there is a very important leadership practice called development discussions (appraisals), which are carried out in Finland in almost all organizations annually. There are some challenges to implement this practice in Russia. Additionally, most of the Finnish companies have a bonus system leading to a bonus 10–20% out of annual salary, proving that agreed targets are met. Clear targets are set in development discussions and bonus is paid only in case targets are met. Targets are set in order to achieve strategic objectives of the company.

In Finland the most important features for employees, who work in an international company, include social and communicative skills and competences concerning self-determination and goal setting. In this case by social skills respondents mean understanding people, openness and easy-going. For communicative skills, the crucial points are language and presentation skills.

The most important features for key employees are not only social and communicative skills, self-determination but also high level of mobility. Key employees should not be afraid of taking more responsibilities. Key employees have very different criteria: In one company, key employees are identified as high-potential employees, in another – as high-performer. In the third company the Hay system is implemented and the key employees have the highest grades. For one company key employees are described by special features at any level of organization. The practice of financial evaluation of key employees input is not developed, but there is a usual practice of evaluation of satisfaction, expectations, challenges and etc.

Another difference is about decision–making concerns, the time and procedures of discussing and deciding. For the Finnish companies this is a long, thorough process with detailed discussion. For the Russian managers it is more common to have short discussion and to make decisions as soon as possible.

The great problem for Russian-Finnish companies is the different meaning of discipline. In Finland it is inadmissible to use work-time for private business. For Russians that is not wrong to use the job Internet for private mailing or to call
home during work-time. Another discipline aspect is the habit to be on time – for Finns it is the norm not be late, not to miss every schedule item during project. For the Russian employees, it more important and more convenient to follow deadlines than intermediate terms.

There are differences in adaptation processes in Russia and Finland. In many Russian companies, there is no special procedure for adaptation of new employees. A person can be introduced to colleagues and then start doing his/her tasks. In Finland that is more usual to have one or two supervisors who guide and control a new person.

The main recommendation on how to improve HRM has come from the respondent who suggests “that one solution of the problem [differences between Russians and Finns] is that Finns can go and work for one year in Russia, and Russians can do the same in Finland. That could help us to understand each other better and can improve performance and working together”. That means that the deepest understanding of another culture and managerial practices can be achieved through diving to the local company. But even for this diving, some preliminary recommendations can be useful – they concern motivation, increasing the level of communication and tolerance.

A high level of avoidance of uncertainty, (UAI) means (see Figure 6.1.7) that in both countries employees have needs in rules and instructions. Thus there is a favourable outlook for implementation of all types of formalization, such as performance measurement and profiling tools (Filinov et al. 2009). Also features of the Russian culture preclude that a Russian employee’s focus on career rather than quality of life to a greater degree than their Finnish counterparts. In Russia higher levels of remuneration and bonuses are more important than in Finland. This was also found out in a survey carried out in a Finnish company working in Russia and in Finland in construction and project business.

**Behaviour between companies and business networks**

This chapter is based on the recent articles, author’s interviews and also on authors experience within international projects in Russia and other countries.

According to the logic of Transaction Cost Theory the goal of the company is to organize and the governance of business operations in a way that minimizes the sum of production costs and governance (Vuorinen,T. 2009, 319). In the Resource Based View, the company tries to maximize its value by combining and utilizing valuable recourses. Networking helps to enlarge the company resource base with other companies’ resources (Vuorinen, T., 320). In networked companies benefits in Social Capital can be dived into two parts:

- Social Capital increases the efficiency of action as information diffusion is more effective and trust among networked companies replaces costly monitoring.

- Social Capital is an aid for adaptive efficiency, creativity and learning. It encourages cooperative behavior, which helps organizations to act innovatively.

The theories discussed play a different role in the different phases of cooperation and they have different meanings and importance for supplier (spoke) and purchaser (hub) parties. From the supplier (spoke) company point of view, the construction of a network dyad could be defined mostly as a strategic choice made in socially embedded business environment. From spoke company viewpoint, the construction of an organizational dyad appears more as action done the basis of opportunities provided by the social context. From the supplier’s point of view, cooperation typically starts with the aid of social capital, and means of development
of relationship are also strongly based on social capital. The resource-based logic is also considered along with social issues. Transaction cost and economic issues have only a modest role compared to those of social capital issues.

From leader company’s (hub) point of view, all theories have their own roles. The hub-company objectives are firmly based on reducing transaction costs as well as on focusing on augmenting the resource base. At the same time, all decisions are made in a social context, where familiarity plays a most critical role. The three different theories appear as an inseparable combination.

According to the author’s own experience (more than 25 years in international construction and project business) as well as remarks made by several interviewees confirm observations above. Comments like “subcontractors are selected only among known companies”, even “black list was used” are quite common. On the other hand, the Chinese phrase “we will do business between friends” gives a time perspective for these findings. The well-known Chinese term “guanxi” meaning usually long-term reliable relationship also on a personal level shows, that social capital in relationships has long and plural value roots in the history. There is also a possibility to learn from the Chinese culture and prefer Guanxi to money rewards to a certain extent (Stawicki et al 2009, 23).

Uniqueness of the Russian market is described below (Figure 6.1.11). Different motivation, traditions, leadership styles, lack of team building tradition and extensive informal networks are typical features.

Uniqueness of the Russian Market (Basic comments by prof. Alex Settles, HSE Moscow (in brief Ase) additional comments by author and other expert mentioned.

- Different motivations (ASe)
  - Company Rautaruukki: Bonus motivates more in Russia
- Differing traditions in management both Soviet and post-Soviet (ASe)
  - Prof. Olga Tretyak: Power shrinks, when costs are saved … no tradition in cost saving
- Russian tradition of authoritative leadership equaling “effective” leadership (ASe)
  - Naulapää (2000) and company NCC’s experience
- Lack of team building tradition – hampers network formation
  - Konecranes interview, “why they don’t ask neighboring room instead of calling Finland”
- Extensive informal networks
  - positive and negative aspects for firm

Figure 6.1.11. Uniqueness of the Russian market (Settles et al 2009).

At this moment the financial situation in Finland and especially in Russia is very difficult. Therefore companies and their staff just try to survive to the next reporting period and all development activities seem to be very difficult. On the basis of research results and earlier experience it is possible to illustrate development and learning needs for both Finnish and Russian managers by applying
Blake & Mouton (1962) managerial grid for business networked companies (Figure 6.1.12). Finnish managers should appreciate more relationships; Russian managers should be more aware of managerial issues described performance measurement profile (Figure 6.1.10, Figure 6.1.14 and Figure 6.1.15).

Story related: during Implementation of the STROI Network it did become obvious at a very late state, that Russian researchers did not agree to use Figure 6.1.12 to express differences between two cultures without a proper survey. It is true, that a drawing expresses an author’s own experience and some discussions during interviews without doing a proper quantitative survey. However, when thinking about the reason for the late reaction “how come a young Russian researcher would dare to comment on your presentation…”, the drawing may have some useful information when thinking over leadership style in Russia.

Management and Leadership styles in Finnish-Russian Business Networks according to authors experience and interviews (Expressed as an application of Blake & Mouton -model)


Figure 6.1.12. Development needs of management and leadership in Finnish Russian business networks (Illustrative application of Blake & Mounton model for business networks).

**Decision making and the learning organization concept**

Filinov stated (2009), that usually Finnish companies operating in Russia are attempting to replicate their knowledge management systems and employee feedback programs. In Russian business culture top-management direction is crucial for all decisions including creating a learning organization. Sometimes companies do not realise that Russian managers and organizations are culturally and historically unfriendly to the conditions needed to develop a learning organization:

- Initiative is unappreciated
- Formalization is a key Russian value
- Managers expect workers to conform to their direction.
Importance of informal networks may be ignored and therefore Russian managers in a foreign owned subsidiary are at times unsure of their role and therefore return to default Russian management practice. Expectations of Western Managers are the same for Finnish and Russian managers, but local subordinates and partners expect Russian style behaviour. Also there are differences in meaning of terms and concepts – e.g. Russia definition of learning as a formal process with results i.e. diploma as opposed to continuous process.

Concerning current financial crisis and business networks Olga Tretyak (in Niittymäki et al. 2009, 21) states that the market situation in the Russian construction market has changed significantly. Many projects were stopped, workers fired, prices and costs went down, as customers withdrew from buying and banks from lending money. When a crisis appears, value chains become leaner and are under threat of dissolution, if partners like suppliers or distributors get out of business. Those who survive demonstrate high levels of flexibility and coordination: e.g., in the Russia of the 1990s firms introduced barter exchange, trade platforms and mutual debt repayments so as to keep going together. What’s more, they were more capable in finding new market segments and adapting to the needs of alternative customers.

Implementation of performance measurement and exploitation

In Finland there are construction companies and metal industries, which apply performance measurement indicators (PMI) described above. The possibility to compare different years and strategic business units consisting of different projects has aroused interest in companies. Some companies are developing their monitoring systems in order to collect the data accordingly. Some companies are working on building a common vision with their network partners or have at least common meetings in order to find out bottle necks in production or in activities, but this is still not very common. Small and medium size companies working on construction projects are waiting for long term business relationships and are also willing to show their commitment in case unexpected things occur in projects. In Russia planning strategy and setting targets is much more difficult due to even more dramatic change in the business environment. In principle management, tools and clear targets are appreciated, but commitment is very difficult as the situation may change rapidly. Rapid change and fast strategy will need multidimensional organization (Doz and Kosonen 2008, 237), which is practically matrix type organization. Using PMI-type approach would require also this type organization in order to collect and arrange all necessary information for decision making.

Finnish construction companies have arranged management of processes like production, marketing, finance, research and development (R&D) as well as management of human resources with matrix type organization. In this organization all local managers in Finland and Russia are supposed to report directly to head quarters in Finland. This is against Russian tradition and business culture as in Russia the main director has the power and responsibility given even by Russian law. In order to beat this problem, Finnish companies should allocated enough resources for main director so, that plans and reports may be prepared under his supervision. Also local innovations might be gained. Experience in many companies has shown, that when the main director is not satisfied with his/her situation or the staff are not satisfied the turnover of staff will rise to an intolerable level at least during an economic boom.

In construction project business projects managers and engineers are often concentrating only on the current project. This may jeopardise a company’s future success as co-operation partners will be needed also in the future. Project managers should see themselves as a part of the future success of a company and business network and they should evaluate themselves according to strategic objectives
of company and business network. STROI-project has developed a tool for planning, implementation of company strategy and also to monitor company performance. Individual project objectives may be derived from company objectives.

Performance measurement indicators should point towards targets of the vision of the network in order to implement the change as soon as possible. Most important indicators used in Finland are described in Figure 6.1.13 and Figure 6.1.14. By selecting 6 to 14 performance measurement indicators (PMI) as a base for strategy implementation companies and business networks may reach their targets sooner, as the whole staff will understand their common goals clearly.

Figure 6.1.13. The most important 6 factors (PMI, Performance Measuring Indicators) to be measured within project-oriented business networks. In this figure the importance of measuring innovations is underestimated, as a tradition to measure innovation does not exist. At least one performance measurement indicator (PMI) should be selected for the following perspectives: Business sector and Customer, Human Resources, Development, Finance and as well Network confidence and Flexibility.
Figure 6.1.14. Most important 14 factors (PMI, Performance Measuring Indicators) to be measured within project oriented business networks on the basis of average values of answers. In this figure the importance of measuring innovations is underestimated, as a tradition to measure innovation does not exist.

Reliability of the results has been verified by using triangulation of research methods. Webropol survey consisted of 24 questions and it was addressed to the Management group of STROI Network project. Seven completed answers were received. Average values of results are indicated in Figure 6.1.13, Figure 6.1.14 and Figure 6.1.15 with red line or column. After the first cycle questions were modified according to the answers, the second cycle was carried out as an interview for different companies or persons in companies.

The average value of answers is indicated by a blue line or columns in Figure 6.1.13, Figure 6.1.14 and Figure 6.1.15. Differences in results are indicated with a red circle shape in Figure 6.1.15. Similarities of results are indicated with a green circle shape. On the basis of triangulation of by using multiple data sets the most important factors to be measured within business networks are listed below. These factors are divided according to perspectives P1-P6. Factors mentioned should have target values for present year and for next two years.

**P1: Business Sector**,  
1 company reputation

**P2: Network Aspects**  
2 punctuality of delivery times  
3 number of reclamations  
4 confidence within network  
5 common development and  
6 streamlining activities

**P3: Human Resources**
## Most important factors to be measured.

Reliability according to method triangulation with two different methods:
- **Red circle**: difference more than 20%.
- **Green circle**: difference on results less than 20%.

### Web-robot Interview

Figure 6.1.15. Reliability of the results is evaluated by using triangulation of different methods. Triangulation brings up growth of turnover and order book change as a target for performance measurement.

## CONCLUSIONS

This research has shown that the presented approach for planning, implementation of strategy can be applied in Finland and in Russia in construction project business. Measuring performance of business network is as important as company traditional company performance measurement. Most important performance measurement targets will be presented below. Also scenarios of outside development like PESTE (Political, Economical, Sociological, Technological and Environmental) and demand factors should be documented in order to be ready to react in case conditions as-
sumed will change. In this way companies and business networks will gain agile strategy for their planning activities. The process of setting targets will give room for different views and a possibility to avoid fatal mistakes in strategic management.

Recent research (Suominen 2009) indicates that the art and practice of managers’ everyday strategy usage is creative: some managers use it in order to promote their own aims; others play with strategy while talking. This shows that there is room for rethinking strategic management and setting goals for companies and business networks.

The most important factors to be measured within business networks are the following factors, which should have target values for present and the next two years:

1. company reputation
2. punctuality of delivery times
3. number of reclamations
4. confidence within network
5. common development and
6. streamlining activities
7. staff turnover
8. work satisfaction
9. trend of productivity
10. growth of turnover and
11. order book change
12. profit of a product
13. return on capital employed
14. profit.

However, the way of application in Finland and Russia should be different. In Russia the position of main director is different compared to Finland. For the Russian main director there should be adequate resources in order to carry out all duties towards Russian authorities and Finnish headquarters. The implementation of applied management systems will imply remarkable training efforts for Finnish and Russian staff members.

Improving staff innovation ability and initiatives will be challenging in Russia, as this is has not all appreciated within companies earlier. Start point for adopting learning organization concept could be development discussions (appraisals). During appraisals development and learning targets as well as possible bonuses should be agreed upon.

ACKNOWLEDGEMENT

The author gratefully acknowledges the financial support of TEKES and a number of Finnish private companies, which have given new research directions for the building sector. Additionally author acknowledges co-operation partners Tampere University of Technology, VTT Technical Research Centre of Finland, Graduate School of Management (St Petersburg) and Higher School of Economics (Moscow).

REFERENCES

Gotheva, N. (2009), Presentation at internal STROI Seminar at Tampere on April 21.
Naulapää, P. (2000), The adjustment to market economy of industrial enterprises in the transition process in Russia. Helsinki University of Technology.
Stawski, J., Rongui, D., Ziegglmeier, O. (2009), What Western Management can learn from Chinese Culture, Philosophy and Management Approach.
7. INTERVIEWS

7.1 QUESTIONS AND REPORTING TEMPLATE

All interviews need to be recorded and carried out in the mother tongue of the person interviewed. In case this is not possible, the English language should be used. A memorandum (later on memo) should be worked out by the interviewer immediately after the interview and, if necessary, the memo should be checked by both parties of the interview. The memo should then be translated into English (US).

Memos will be copied to NVivo 7 as MEMOs.

Part 1: General Information and Background Questions, P1–P2

The interviewer should become acquainted with the company before the interview. General information should be filled into a form before the interview and only checked with the interviewee (P1, P2).

All memos covering the interviews should include the following general information


Please mention the website of the unit:
www.________________________

10. Time of interview (e.g. June 18, 2008 from 18.00 to 19:05)

11. Place of interview (e.g. St. Petersburg, GSOM 3, Volkhovskiy per.)

12. Persons present (e.g. Interviewer: Nikita Popov, SU HSE; Pekka Entelä NCC)

13. Position and tasks of the person to be interviewed (e.g. Director of NCC, Russian operations, finding out new projects in Russia, managing design work etc.)

14. Personal features of the person interviewed: work experience in years, experience within the present company, work experience related to Russia.

15. Main perspective(s) of the interview:

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<th>Yes</th>
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<td>P 6:</td>
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</table>
P 1: Business Sector for a Networked Company (Anna-Leena Perälä, Markku Riihimäki and Eero Nippala, VTT/TAMK)

1.1 Company business in Russia (overall):
   a. What was the whole turnover of the company and the turnover in Russian markets in 2007 (RUB/EUR)?
   b. What was the average growth of business in over the last years?
   c. What was the size of the staff in the whole company and the staff in Russia in 2007 (persons)?
   d. Describe your company group structure.
   e. What are your company's main business targets for business in Russia?

P 2: Vision of Business Network (Kalle Kähkönen, Anna-Leena Perälä and Markku Riihimäki VTT)

2.1 Information about company's business network in Russia:
   a. What is your company's and network’s main product or service for business in Russia (End product: building, wooden houses or products, service business)? Other, what?
   b. What is your company's role in that business network?
   c. Describe the main parties of the network. (Customers, contracts, field of production,..)
   d. Who are clients of the network, who will buy the end products or services?
   e. Which are the market regions of the network in question?
   f. What are the main business targets of the business network in Russia? Are there any common targets?

Part 2: Research Questions (action research type questions), P3–P6

The interviewer will ask those questions which consider the interviewee’s position or knowledge area.

P 3: Competence of Human Resource (Professor Vera Minina, Anastasia Krups kaja, Elena Dmitrienko, GSOM and Seppo Niittymaki, HAMK)

3.1 Principles of development relationships in the network
   a. Who is responsible for making arrangements in the network and maintaining relationships with network partners?
   b. What are the main personal characteristics for the employees who deal with network partners?
   c. How does the company choose new partners?
   d. What kind of problems does your company face dealing with network partners?

3.2 Differences in recruitment principles
   a. How does your company search for candidates?
   b. What is the procedure for the selection of candidates?
   c. Does the company form personnel reserves? What is the way of the forming this reserve?
d. What are the main difficulties in finding good employees in your field of business?

3.3 Differences in motivation management in Russia and Finland
   a. What is the way of choosing the motivators in the company?
   b. What methods of motivation are used in the company?
   c. Do you use development discussions (appraisals) and how often? What kinds of things are agreed upon in the development discussions?
   d. Who is responsible for decisions about applying the particular motivators?
   e. How does the company detect the effectiveness of motivation actions?

3.4 Differences in personnel training
   a. Does the company provide any educational programs for the personnel?
   a. Who is responsible for the planning of personnel training - who makes the decision about the necessity of this kind of planning? Who confirms the plan? Who controls the plan fulfillment?
   b. What kind of training do your personnel have?
   c. Does the company pay for personnel education?

3.5 Differences in personnel development management
   a. What kind of adaptation principles do you use in your company?
   b. What is the usual way for career development in the company?
   c. Who takes the lead in the promotion of an employee in the company?
   d. Do the assessment and certification take place in the company?
   e. What are the principles of these procedures and what is the output of them?

3.6 Definition of the key employees in the company
   a. Please, define the key employees who give your company competitive advantage.
   b. What kind of competence and skills should the key employees have (theoretically)?
   c. What are the problems and limitations while managing key employees?

P 4: Internal Development of Networked Company

4.1 Learning Organization (Professor Alex Settles, HSE)

4.1.1 We would like to understand the working environment within your unit (company).
   a. Do your employees feel comfortable approaching their managers with their concerns, problems or disagreements?
   b. Is there a formal process for managing this process of interaction between employees and management?
   c. Are people in this unit eager to share information about what doesn't work as well as to share information about what does work?

4.1.2 In terms of capturing best the practices or knowledge and experience created by your employees, do you feel that your company does an adequate job of ensuring that this knowledge and experience is retained and used?
a. Do your managers value new ideas?
b. Are employees rewarded for bringing forward new methods of work or new technologies?
c. Does your company have a formal system of knowledge capture and management?

4.1.3 Do your employees regularly participate in training?
a. Is that training evaluated and is the employee productivity improvement resulting from training measured?

4.2 Network Growth and Strategic Development (Nina Vladimirova, HSE)

4.2.1 Who or what department performs strategic planning?
4.2.2 What tools are used for long-term planning and development? Please, describe these.
4.2.3 How often do you review the company's long-term plans and goals?
4.2.4 Does your company have an official document where the company's development programs and projects have been described?
4.2.5 Do you use Balanced Scorecard (BSC) for measuring company performance? Could you describe any difficulties when using BSC?
4.2.6 How is combining different level plans organized in your company? What organization levels are touched upon?

4.3 Decision-Making Process in a Networked Company (Professor Nikolay Filinov, HSE)

4.3.1 Consider a business decision, which has to be made on a regular basis. Please, provide the following information:
   a. How often is it necessary to make the decision in question?
   b. Is there a formally adopted (may be written) procedure in place related to this type of decision?
   c. Is it necessary to come up with decision alternatives every time you make this decision, or are the options basically the same every time and there is no need to re-invent them?
   d. Describe the decision-making process.
   e. Do you make the decision personally or do you involve your subordinates?
   f. In case you involve them, why do you do that: in order to get information they possess or in order to secure their support (buy in) for the decision made or in order to develop their potential?
   g. Is information distribution among your subordinates more or less symmetrical?
   h. Is a conflict possible among your subordinates arising from the decision in question?
   i. Do they generally share your goals and approaches?

4.3.2 What difficulties do you experience when making decisions dealing with your business partners?
   a. Is the necessary information provided on time?
   b. Is it accurate enough?
   c. How do you decide on the amount of information you provide to your partners?
   d. Are the position and aspirations of your partners clear, stable and understandable?
5.1 Building Trust in Counterweight to Risks in Inter-Organisational Relations (Marina Weck, HAMK)

5.1.1 At which stages (1. Awareness, 2. Exploration, 3. Expansion, 4. Commitment and 5. Dissolution) of relationships with your partner organizations in Russia do you perceive the relational risks? (The proposed list of relational risks will be attached)

5.1.2 To what extent do you perceive that the relational risks are probable at different stages of relationships with your partner organizations in Russia?

5.1.3 To what extent do you believe that the relational risks do negatively affect trust in your partner organizations and their management?

5.1.4 At which stage(s) of relationships do you believe the proposed preconditions for trust are necessary? (The proposed list of preconditions for trust will be attached)

5.1.5 To what extent do you consider that the proposed trust preconditions are associated with positive changes in trust in your partner organizations and their management in Russia?

5.1.6 Do you feel that the first stage of an inter-organizational relationship is more risky than the fourth?

5.1.7 Do you believe that trust is needed more at the first stage of an inter-organizational relationship than at the fourth?

5.1.8 Who do you trust most, people or organizations?

5.1.9 What are the actions you exercise (or that should be exercised) in order to build and maintain a higher level of trust at different stages of the relationships with your partner organizations in Russia? Whose concerns are the trust-building actions? (1. Senior managers/leaders and/or 2. key personnel)

5.2 Supplier Relationship Management (Professor Olga Tretyak, Nikita Popov, HSE and Seppo Niittymäki, HAMK)

The interviewee's role in the company: person responsible for purchasing (e.g., purchasing director)

5.2.1 Please, could you briefly outline the production process in your company? (Russian branch)

5.2.2 Please, could you rate the importance of key competitive advantages for your product or service? (Price levels for products compared to competitors, quality of the products, reliability of the delivery process, other, please specify).

5.2.3 Which factor is the most important when choosing a new supplier or evaluating an existing supplier? (Price levels for products compared to competitors, quality of the products, reliability of the delivery process, other factors, please specify).

5.2.4 Do you use a formal evaluation system for suppliers? If yes, could you please outline how it works?

5.2.5 Do you measure the profitability of relationships with suppliers? If yes, could you please outline the measurement system?

5.2.6 Who participates in the evaluation of relationships with suppliers?

5.2.7 Do you use any of the following factors when evaluating relationships? (Attractiveness of relationship, strength of relationship, growth rate of supplier's market, competitive position, net price,
cost to serve the relationship, interest commonality with supplier, relationship value or other factors like security of delivery times...)

5.2.8 Please, could you briefly outline the organization of supply management in your company? (Russian branch of your company? Issues to discuss: people involved and their responsibilities, decisions made by the people involved, who are responsible for initiating/terminating relationships with suppliers).

5.2.9 Does the General Manager personally influence the relationships between your company and any of its suppliers? If yes, in what respect? Does s/he influence indirectly/interfere directly?

5.2.10 Does your company have an IT platform for information exchange with your suppliers or for electronic buying? If yes, could you please outline how it works?

5.3 Customer Relationship management (Professor Olga Tretyak, Alexander Rozkov, HSE)

The interviewee's role in the company: person responsible for customer management

5.3.1 Do you coordinate your activities with your network partners?
5.3.2 What functional areas are coordinated, what business processes (BP) are involved in this interaction? What indicators are used to measure this process?
5.3.3 What communication channels do you use when dealing with your partners, especially IT solutions?
5.3.4 Do your suppliers and/or network partners know about your customers’ requirements for products?
5.3.5 Do you get info on your partners’ customers?
5.3.6 Are you ready to change some action or business process if it’s needed by your customers?
5.3.7 Are you able to influence your partner’s policy to provide better customer service?
5.3.8 Do you use any particular indicators to monitor customer handling inside the “network”?
5.3.9 What methods and indicators are used for customer attraction and initial assessment?
5.3.10 What are the main goals of CRM in your company? What organizational levels are chosen for their implementation? Do you have some particular strategic settings in this area?
5.3.11 How is customer feedback collected and used? What is the role of interpersonal relations in CRM?
5.3.12 Are there any IT solutions used for customer communication or collaboration, data collection and analysis? What kind of data is collected?

5.4 Relationship Building in Russian Market (Professor Olga Tretyak and Ekaterina Buzulukova, HSE)

5.4.1 Please describe the stages in relationship development between your company and its partners in Finland. (First contacts, joining other partners, relationship strengthening... current situation). (network development)
5.4.2 What are the peculiarities of the stages in relationship development in Russia?
5.4.3 Please justify why you decided to enter the Russian market. How did you do that (list steps)?
5.4.4 How are you estimating the perspectives of building stable network relationships in Russia? How can you estimate the perspectives of Russian partners joining to your network?
5.4.5 Which factors have you take into account while entering and working in Russia?
5.4.6 What are the criteria for the right choice in the search for a new partner? Please estimate their importance (e.g., willingness to compromise, cultural similarity, readiness to work hard, readiness to invest in relationships, management support, fulfillment of first engagements, favorable reports, flexibility, favorable conditions of agreement)
5.4.7 What factors from your point of view are crucial for a network relationship’s stability?
5.4.8 How do you estimate customer satisfaction from your collaboration?
5.4.9 Where can you see favorable and negative influences of relationship networks on your company performance?
5.4.10 Please describe the stages in relationship development between your company and its partners in Finland. (Example: First contacts, joining other partners, relationships strengthening etc.).
5.4.11 What are the peculiarities of each stage in Russia?
5.4.12 What are main problems for entering the Russian market?
5.4.13 What difficulties do you perceive in searching for reliable business partners in Russia?

**P6: Measuring network performance (Seppo Niittymäki, HAMK, Antti Lönnqvist, and professor Teuvo Tolonen, TUT)**

**6.1 Performance measurement in organization**

6.1.1 Describe the present state of performance measurement in your organization. (e.g., BSC and some non-financial measures like time to deliver or quality evaluation)
6.1.2 What is the role of measures and measurement in managing the company?
6.1.3 Does your company pay any bonus based on performance? If yes, then
6.1.4 On what performance criteria are bonuses based?
6.1.5 How much may these bonuses be (%) compared to the annual salary without bonuses?
6.1.6 What are the present threats and risks within company?
6.1.7 What is the most important thing that should be done now in order to improve the situation?

**6.2 Performance measurement in business networks**

6.2.1 What are the success factors for business networks (basic factors for operations and strategy)? Name the three most important.
6.2.2 How could the performance of a network be measured and evaluated? What kind of measures could be used in a network?
6.2.3 What things should be measured or evaluated in business networks? (E.g., costs, quality, time to deliver, competence, trust, ability to cooperate...)

6.2.4 What factors complicate measuring the business network related to Russia?

6.2.5 What kind of factors should be considered in setting bonus targets in order to improve business network performance?

6.2.6 What are the present threats and risks within the business network considered?

6.2.7 What is most important thing that should be done now in order to improve the situation?

Part 3: Interviews Questions and Answers

Please write below the answers received from the interviewee according to the question numbers. In case you have used different or additional questions, please write also these questions below.

7.2 Annex 2: Questionnaire for HRM

Common background information

We would like to invite you to take part in this survey. Its aim is to study features of management and leadership in construction-oriented companies, which operate in the Russian market. Your generalized opinion will be considered in developing recommendations for the management and leadership practices of companies and their business networks. Your responses will not be identified with you personally. There is no need to specify personal data. We ask you to familiarize yourself closely with the questionnaire and, if possible, answer all questions. The quality of the recommendations which are prepared by the research group will depend on the accuracy and sincerity of your answers.

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<td>1. Your gender ____________</td>
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<td>2. Your age_______________</td>
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<td>3. Your marital status_______</td>
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In how many companies have you worked during your professional career ______________

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<th>Your work</th>
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<td>4. Your post (profession, trade)______________________________</td>
</tr>
<tr>
<td>5. General work experience ____________________________</td>
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</tbody>
</table>
6. Work experience in this profession

7. Work experience in the current company

8. How many subordinates do you have, if any

3.1 Human Capital in Finnish construction oriented companies in Russia

9. What is the highest EDUCATIONAL QUALIFICATION that you have?
   PhD □ Master’s degree □ Bachelor’s degree □ other: please state___________

10. If you were trained in additional programs, please specify which

11. Do you have enough knowledge to perform your official duties (functions)?
   - Quite enough
   - More like enough than not enough
   - More like not enough than enough
   - Obviously not enough
   - It is difficult to answer

12. What difficulties do you face when performing your work tasks?
   - Not enough qualifications exist, continuously resulting in bad quality results
   - Not enough knowledge exists for organizing the process, so I cannot deliver in time
   - Problems in communication with colleagues
   - Problems in relationships with managers
   - Other: please specify________________________
   - I face no difficulties

13. To what extent do your professional knowledge and skills fit your work: ____________% of work time.

14. Why do your knowledge and skills not fit your work
   1. ________________________________
   2. ________________________________
   3. ________________________________

15. How many days have you spent in training, being educated or improving your qualifications in the last 5 years? _________days

16. In what way did you improve your qualifications:
   ________________________________
   ________________________________
17. If you would improve your professional skills independently, how much time and money would you be willing to invest for this purpose: ________ days/year _______ Rbl.

18. What skills are necessary in your opinion for successful performance in your work? (choose no more than three (3) answers)

- Communication skills
- Stress management
- Analytical thinking
- Leadership
- Ability to understand yourself and colleagues
- Ability to propose new ideas
- Ability to develop and carry out current ideas and projects
- Other: please specify ______________________

19. What skills do you have in your opinion? (choose no more than three (3) answers)

- Communication skills
- Stress management
- Analytical thinking
- Leadership
- Ability to understand yourself and colleagues
- Ability to propose many ideas
- Ability to develop and realize current ideas
- Other: please specify ______________________

20. What should the management do for the development of employees’ skills in your opinion?

_______________________________________________________
_______________________________________________________
_______________________________________________________
_______________________________________________________
_______________________________________________________

Innovation climate in your organization

Please, assess the next sentences on a scale from 1 to 5

<table>
<thead>
<tr>
<th>Sentence</th>
<th>1-disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5-agree</th>
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<tbody>
<tr>
<td>21. The development of our own ideas for organizational development in our company is encouraged</td>
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<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>22. The top management encourage my new ideas</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>23. Employees who put forward innovative ideas are often encouraged for their initiative</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>24. Project managers have the right to make decisions without agreeing and approval</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>25. It is always possible to receive money for starting a new project</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>26. Employees offering innovative projects receive additional encouragement and payment for their effort and ideas besides traditional compensation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>27. An employee who puts forward a good</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
idea is allowed to have time for its development.

| 28. Employees in our company have a huge desire to generate new ideas and do not limit themselves to the limits of the departments and functions. |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

Your values

29. What is most important in your work? (choose no more than three answers)

- Good financial compensation
- Social recognition
- Maintaining interesting work
- Good relations with colleagues
- Opportunity to introduce new ideas to carry out new projects
- Contributing to a common cause
- Opportunity to transfer experience and knowledge to colleagues
- Receiving new experience, self-development
- Other: please specify ___________________________

30. What is the least important for you in your work? (choose no more than three answers)

- Good financial compensation
- Social recognition
- Maintaining interesting work
- Good relations with colleagues
- Opportunity to introduce new ideas in order to carry out new projects
- Contributing to a common cause
- Opportunity to transfer experience and knowledge to colleagues
- Receiving new experience, self-development
- Other: please specify ___________________________

31. What makes you work better, more effectively, more qualitatively? (choose no more than three answers)

- Good compensation
- Opportunity for professional development
- Opportunity for career advancement
- Social recognition
- Opportunity to carry out new projects
- Opportunity to contribute to a common cause
- Other: please specify ___________________________

a) General Information and Background Questions (addition to Part 1 questions)

2. Information about Company’s Network and Russian Operations

<table>
<thead>
<tr>
<th>1. Data</th>
<th>Whole Company</th>
<th>Russian Operations</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover of your company in 2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of workers (personnel)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average growth rate of business in the last year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Estimated growth rate for the next five years

2. What are the main goals of doing business in Russia (or starting business in Russia)?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

3. What kind of operations do you have in Russia?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

4. In which regions do you have operations in Russia?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

5. What is your company’s main product in Russia (End product: building, wooden houses or products, service business)? Other, please specify?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

2. Suppliers or subcontractors

6. Name five suppliers and the percentage of total buying volume (=______M€) from the suppliers (%)

<table>
<thead>
<tr>
<th>Name</th>
<th>Percent of total sales volume</th>
<th>How long have you done business with them (number of years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier 4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier 5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Sales trends

a) What has been the average sales trend over the last 5 years to these suppliers? (or for the length of the relationship if less).
b) What are your expectations regarding sales to these suppliers for the next five years?


<table>
<thead>
<tr>
<th>Name</th>
<th>a) Sales trend for the last 5 years (N of trend)</th>
<th>b) Prognosis for the next 5 years (N of trend)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier 2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Please estimate the relationship atmosphere with your suppliers by choosing the level of agreement with the statements below:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree strongly</th>
<th>Disagree slightly</th>
<th>Unsure</th>
<th>Agree slightly</th>
<th>Agree strongly</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are more important to our suppliers than they are to us</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We feel dependence on the suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our goals are basically compatible with the goals of our suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our supplier gets more profit from our sales than we do</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Customers

9. Name the main customers and the percentage of total sales volume (=________M€) to these customers (%)

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Percent of total sales volume</th>
<th>How long have you done business with them (number of years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer 4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer 5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Sales trends
a) What has been the average sales trend over the last 5 years to these customers? (or for the length of the relationship if less)
b) What are your expectations regarding sales to these customers for the next five years?


<table>
<thead>
<tr>
<th></th>
<th>a) Sales trend for the last 5 years (N of trend)</th>
<th>b) Prognosis for the next 5 years (N of trend)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer 1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. Please estimate the relationship atmosphere with your customers by choosing the level of agreement with the statements below:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree strongly</th>
<th>Disagree slightly</th>
<th>Unsure</th>
<th>Agree slightly</th>
<th>Agree strongly</th>
</tr>
</thead>
<tbody>
<tr>
<td>If necessary we would go quite far in making concessions for our clients</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We feel dependent on the customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adaptation is more frequently made by us then by the customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unsatisfactory performance (e.g. late deliveries, delayed payments) has caused problems in our relationships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The customers put cooperation with us before their short term profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Third Parties
12. Which of the following third parties have a significant effect on your company? (From 1 - not at all to 5 – very much)

<table>
<thead>
<tr>
<th>Third Party</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Architecture department:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government agencies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultants:</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tax revision:</td>
<td></td>
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<tr>
<td>Fire revision:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local community:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. What is the importance of saving reliable relationships between your company and: (From 1 - not at all, to 5 – very much)

<table>
<thead>
<tr>
<th>Relationship</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers’ suppliers:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers:</td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Intermediary:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers:</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Third parties:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 8. List of interviews

<table>
<thead>
<tr>
<th>INTERVIEWER(S) PERSON INTERVIEWED</th>
<th>COMPANY</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikita Popov</td>
<td>Head of Merchandise line Kesko-Russia</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>Director, Konecranes Service North-West branch ZAO Konecranes</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>Director, Standard Lifting ZAO Konecranes</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>Deputy Director, Legal Affairs ZAO Konecranes</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>Director, Technical Maintenance ZAO Konecranes</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>DBD International</td>
<td>28.5.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Area Manager, Russia NCC</td>
<td>28.5.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Technical Director Ponsie</td>
<td>4.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director, St. Petersburg FicoTe</td>
<td>5.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Area Manager, Russia FicoTe</td>
<td>5.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director Lennobistroi</td>
<td>6.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Manager, Russia Gantar Nerve</td>
<td>11.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director Trainor House</td>
<td>13.6.2008</td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head of Technical Department NCC Russia (St. Petersburg) 10.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head of Project Design Department NCC-Russia (St. Petersburg) 10.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head of Sales Department NCC-Russia (St. Petersburg) 10.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director, Russia NCC-Russia (St. Petersburg) 11.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head of Department Ruukki Construction Russia (St. Petersburg) 11.12.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Product sales manager Ruukki Construction Russia (St. Petersburg) 12.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Sales Manager Ruukki Construction Russia (St. Petersburg) 12.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Project Manager Ruukki Construction Russia (St. Petersburg) 12.11.2008</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head Department Ruukki Construction Russia (Moscow) 2.6.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head of Department Ruukki Construction Russia (Moscow) 2.6.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director Kesko (St. Petersburg) 3.2.2009</td>
<td></td>
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<tr>
<td>Marina Weck</td>
<td>Director Kesko (St. Petersburg) 3.2.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Director Kesko (St. Petersburg) 3.2.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Lawyer KoneCranes (St.Petersburg) 4.2.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Director KoneCranes (St.Petersburg) 4.2.2009</td>
<td></td>
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<tr>
<td>Marina Weck</td>
<td>Project Manager KoneCranes (St.Petersburg) 4.2.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Head of Contracting KoneCranes (St.Petersburg) 4.2.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Head of Department KoneCranes (St.Petersburg) 4.2.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Manager Relations FM Group (St. Petersburg) 12.4.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Director of Operations FM Group (St. Petersburg) 11.3.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Head Group FM Group (St. Petersburg) 11.3.2009</td>
<td></td>
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<tr>
<td>Marina Weck</td>
<td>Director FM Group (St. Petersburg) 11.3.2009</td>
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<td>Marina Weck</td>
<td>Manager FM Group (St. Petersburg) 10.3.2009</td>
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<td>Marina Weck</td>
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<td>Project Manager FM Group (St. Petersburg) 10.3.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Manager of Services Cramo (Moscow) 3.6.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Chief of Depot Cramo (Moscow) 3.6.2009</td>
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<tr>
<td>Marina Weck</td>
<td>Director Cramo (Moscow) 3.6.2009</td>
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<td>Manager Cramo (Moscow) 3.6.2009</td>
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<td>Director FinSal (Moscow) 4.6.2009</td>
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<td>Marina Weck</td>
<td>Director FinSal (Moscow) 4.6.2009</td>
<td></td>
</tr>
<tr>
<td>Marina Weck</td>
<td>Manager FinSal (Moscow) 4.6.2009</td>
<td></td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>Director of the Russian office Konecranes Oyj 25.2.2009</td>
<td></td>
</tr>
<tr>
<td>Nikita Popov</td>
<td>The chief of juridical department Konecranes Oyj 25.2.2009</td>
<td></td>
</tr>
<tr>
<td>Sappo Niittyimäki</td>
<td>Director KPM-engineering Oy/FMC Group 3.9.2008</td>
<td></td>
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<tr>
<td>Sappo Niittyimäki</td>
<td>Manager Rautanen Oyj 15.9.2009</td>
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<tr>
<td>Sappo Niittyimäki, Anastasia Krupskaja</td>
<td>HR manager NCC 3.9.2009</td>
<td></td>
</tr>
<tr>
<td>Sappo Niittyimäki, Anastasia Krupskaja</td>
<td>HR manager Huhtamäki Oyj 2.9.2009</td>
<td></td>
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<td>Sappo Niittyimäki, Nikita Popov</td>
<td>Manager Konecranes Oyj 23.8.2009</td>
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<td>Sappo Niittyimäki, Nikita Popov</td>
<td>Director Konecranes 23.8.2009</td>
<td></td>
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<tr>
<td>Sappo Niittyimäki, Anastasia Krupskaja</td>
<td>Director Lassila-Tikkanio Oyj 5.9.2008</td>
<td></td>
</tr>
<tr>
<td>Sappo Niittyimäki, Anastasia Krupskaja</td>
<td>Specialist Lassila-Tikkanio Oyj 5.9.2008</td>
<td></td>
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<tr>
<td>Sappo Niittyimäki, Anastasia Krupskaja</td>
<td>Staff manager Stora Enso/Phuinenki Oy 5.9.2008</td>
<td></td>
</tr>
<tr>
<td>A. Krupskaja, E. Dmitrenko</td>
<td>Supervisor of Russian department FMC group Russia 39919</td>
<td></td>
</tr>
<tr>
<td>A. Krupskaja, E. Dmitrenko</td>
<td>Director FMC group Russia 16.4.2009</td>
<td></td>
</tr>
</tbody>
</table>
P1: Selection of Business sector
Selection of the network business sector in total model

A model for Strategic Planning and Strategy Implementation in Business Networks.

Operational environment analysis
- PESTE
- Five Forces
- Nine Forces
- Warning analysis
- Driving forces analysis

Competitor analysis
- War gaming
- Shadowing
- Competitor cash flow analysis

Market analysis
- Country risk analysis
- Winn/loss analysis
- Demographic analysis

Present state analysis of company and network
- Scenarios
- SWOT
- Benchmarking
- Business model analysis
- 4P
- 7P
- Supply chain manag. analysis
- Technology

Which are the most relevant basic data for the network in construction and service business?

VTT Forecasting Model in Russia

Forecast on different levels in construction markets

1. OVERALL CONSTRUCTION
   - MACRO ECONOMIC FIGURES
   - TOTAL CONSTRUCT FORECAST
   - BRANCH OF CONSTRUCTION FORECAST

2. NEW BUILDING CONSTRUCTION
   - BUILDING TYPE SPECIFIC FORECAST
   - END PRODUCT TYPE SPECIFIC FORECAST

3. CONSTRUCTION PRODUCTS
   - PRODUCT SPECIFIC FORECAST
   - COMPANY SPECIFIC FORECASTS
VTT Forecasting Model in Russia

Global
- Economy
- Money market, interest level

Country
- Demography information
- Customer needs and confidence
- Political measures

Industry and branches
- Environmental issues

SIMULATION MODEL FOR CONSTRUCTION
- MACRO-ECONOMIC
- CONSTRUCTION MARKETS
- CONSTRUCTION CONTENT

DIFFERENT LEVEL OF RESULTS
- DEMAND OF CONSTRUCTION
- DEMAND OF BRANCH OF CONSTRUCTION
- DEMAND OF END PRODUCT
- MARKET OF MATERIAL/STRUCTURES
- MARKET OF CONSTRUCTION PRODUCTS
- MARKET OF COMPANY

Economic forecasts for 2008 in Russia

- BOFIT
- IMF
- Nordea
- OECD

GDP Grew 5.6% in 2008
ICE Brent Crude Oil Closing Price (begin July 1990)

Average monthly data from July 1990 through January 2009

Exchange rate of RUR against USD

1 USD =
Commissioned Residential Buildings in Russia
including new and reconstructed residential buildings

Source: Goskomstat (1990-2005) 02/2009

Average prices of new dwellings in Russia

Source: Federal State Statistics Service
Construction Confidence in Russia

Source: Federal State Service

Example of simulation or mathematic model

Construction markets, history

Construction content

Typical house facade m² / building m³

Completed construction (m³)

Facade (m²)

Construction forecast

Demography information and economy forecast

Construction forecast

Market share of facade materials -%

Facade (m²)

Material A: Completed and demand of facade (m²)

Material factory: Change of facade material production according demand

Operative decision of company director to change of production

Strategy and operative decision making in company or in network

Impacts

© Eero Nippala
Facades in new building - St. Petersburg 2000-2008

Material Market: Buildings Total

P2: Network vision
"Network" as a managerial concept

• The general importance of the concept "network" have continuously increased.
• It is our vision the concept "network" and variety of applications originating from it shall play a significant role as tools for wide variety of managerial decision making.
• Particularly, in Russia network of requests, promises and commitments can well meet the needs of companies operating.
• Network of promises is an essential element of existence for each enterprise, (Sull & Spinosa 2007)

"Networks" for modeling and communicating business conditions

Organisational networks
1. Network of actors, partners or alliance
2. Organisational network of the company
3. Network of the resource pool

Product or activity oriented networks
4. Product and product data as network
5. Network of production activities and actions (emails, transactions etc.)

State of affairs networks
6. Social networks (informal relations)
7. Demand Chain/Network Management (customer orientation, Tretyak 2008)
8. Network of commitments
9. Networks of requests and promises
Stroi-Network deliverables

- Joint working paper *(VTT working paper series)*
- MODELS FOR UNDERSTANDING BUSINESS NETWORKS - PUTTING DEVELOPMENTS IN RUSSIA INTO PERSPECTIVE
  - Review of possible network modelling approaches
  - Snapshots of case-situations in Russia
- Conference paper *(CIB W65 2009, Croatia)*
- Article in professional trade magazine *(in Finnish, possibly at the Rakennuslehti special issue)*

STROI-network Business Sector viewpoints

- Service business
  - life cycle services and maintenance
  - services during building
- Building material products
  - Wooden products in network
- Building
  - Residential buildings (urban building)
  - Commercial and industry building
**P2: Network vision**

- **Task**
  - **Networks:** Vision process to networks
    - Define potential partners and companies in certain business
    - Difficulties to find network from stroi companies
  - **Vision process workshops**
    - Preparing a co-operative model
    - Results from questionnaire
    - Workshops, e.g. 3/2009, 6/2009
  - **Vision Model, 8-10/2009**
    - Network modeling approaches
    - Develop the Network Vision Model as visioning tool to the strategic business networks

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Recognizing the start point – base for need-based vision</td>
</tr>
<tr>
<td>2.</td>
<td>Forming the visioning group – parties and targets</td>
</tr>
<tr>
<td>3.</td>
<td>Customer profiles – prioritizing, grouping</td>
</tr>
<tr>
<td>4.</td>
<td>Clarifying the competition benefit similar to the needs</td>
</tr>
<tr>
<td>5.</td>
<td>Crystallizing the differentiating vision to the network and its end product</td>
</tr>
<tr>
<td>6.</td>
<td>Implementation of the vision into practical operations and control</td>
</tr>
</tbody>
</table>
P3: Competence of Human Resource Management

Russia is a very predictable place – something unexpected will happen every day!

K Fey, Shekshnia St.

Vera Minina, Elena Dmitrienko and Anastasia Krupskaya

The expected outcomes are:

- Human resource systems appropriated to Russian business context
- Human capital profile (identification of key employees)
Recommendations (1)

| Informal practices in Russian companies | □ To take in account that for Russian business relations it’s important to have informal agreements between managers  
□ Create a transparent rewarding system with focus on justice (monitoring on personnel attitude) |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitudes to corporate norms and regulations</td>
<td>□ Knowledge of local labor legislation is needed however conventional agreements with employees are very important</td>
</tr>
</tbody>
</table>

Vera Minina, Elena Dmitrienko, Anastasia Krupskaya

Recommendations (2)

| Local personnel peculiarities | □ For Authoritarian management authoritarian leader is needed  
□ For Democratic management development of employees` initiative and decision-making competences is needed  
□ To invest in development of graduates` practical skills |

Vera Minina, Elena Dmitrienko, Anastasia Krupskaya
## Recommendations (2)

| Local HRM peculiarities | □ Combine long-term perspective with short-term practices of performance appraisal, reward and development systems  
□ To make all HRM practice understandable and clear for personnel  
□ To identify key employees  
□ To define tools for key employees’ rewarding and development |

Vera Minina, Elena Dmitrienko, Anastasia Krupskaya

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Thank you for your attention!

P3: Competence of Human Resource Management

Vera Minina, Elena Dmitrienko, Anastasia Krupskaya
STROI Network Project

P4: Internal Development
Nadezhda Bek
Alexander Settles
NinaVladimirova
Nikolay Filinov

Contents

- Research of strategy process
- Research of subsidiaries' management
- Research of internal process from the point of view of learning organization concept
### Comparison of companies’ network strategies

<table>
<thead>
<tr>
<th>Specific factors</th>
<th>Cleaning service</th>
<th>Construction materials retail</th>
<th>Lifting-equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The dominant market force</strong></td>
<td>Subcontractors</td>
<td>Current competitors</td>
<td>Customers</td>
</tr>
<tr>
<td><strong>Relationship peculiarities</strong></td>
<td>Partnership mainly with public and municipal companies There are obligations to municipalities</td>
<td>Purely contract relations. Suppliers are selected on tender basis.</td>
<td>Assistance to client in project development. After sales service.</td>
</tr>
<tr>
<td><strong>Model of cooperation</strong></td>
<td>Based on value chain</td>
<td>Based on value chain</td>
<td>Joint market offering</td>
</tr>
</tbody>
</table>

### Comparison of companies’ network strategies

<table>
<thead>
<tr>
<th>Specific factors</th>
<th>Cleaning service</th>
<th>Construction materials retail</th>
<th>Lifting-equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies of international expansion</strong></td>
<td>Global</td>
<td>Local</td>
<td>Local</td>
</tr>
<tr>
<td><strong>Strategy of business</strong></td>
<td>Operational superiority (differentiation)</td>
<td>Operational superiority (differentiation)</td>
<td>Close link with customer</td>
</tr>
<tr>
<td><strong>Network strategy</strong></td>
<td>Building suppliers’ and government relations</td>
<td>Short-term contracts based on market mechanisms</td>
<td>Client development, joint projects</td>
</tr>
</tbody>
</table>
Difficulties for replicating network model in Russia

- Russian legislation influences company regulations of partners' relations
- Strategic decisions have to be coordinated with local authorities and included in their strategy

Conclusions

- Most important factors:
  - Business environment: legal and institutional factors
  - Business model type
  - Type of strategy of international expansion
  - Forms of strategic control including ownership
4 generic mechanisms for assuring compliance with standards

- Centralization means that certain processes are carried out exclusively at the mother company
- Formalization, which stands for imposing of formal (written) rules, policies and procedures
- Output control means that subsidiaries are obliged to report certain numerical indicators to the HQ
- Socialization

### Hofstede's estimates for Finland and Russia

<table>
<thead>
<tr>
<th></th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>33</td>
<td>63</td>
<td>26</td>
<td>59</td>
</tr>
<tr>
<td>Russia</td>
<td>93</td>
<td>39</td>
<td>36</td>
<td>95</td>
</tr>
</tbody>
</table>

### Table 2. Hofstede's dimensions for Russia (diverse sources)

<table>
<thead>
<tr>
<th>Source</th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Naumov (1996)¹</td>
<td>40</td>
<td>41</td>
<td>45</td>
<td>68</td>
</tr>
<tr>
<td>Tula²</td>
<td>45</td>
<td>82</td>
<td>67</td>
<td>85</td>
</tr>
<tr>
<td>Yu. &amp; N. Latov. (2003)</td>
<td>40</td>
<td>67</td>
<td>60</td>
<td>54</td>
</tr>
</tbody>
</table>
Consequences for management

- High level of UAI means that in both countries employees have needs in rules and instructions. Thus there is a favourable outlook for implementation of all types of formalization.

- Features of the Russian culture preclude that Russian employees focus on career rather than quality of life to greater degree than their Finnish counterparts. Higher levels of remuneration are more important. Assertiveness is valued higher than intuition.
Consequences for management

- Along with high PDI this means that an ideal manager is a kind of “good father”, demanding, but caring.
- This implies high level of concentration of power in the hands of the subsidiary CEO. In terms of HQ-subsidiary relationships it precludes lower tolerance to centralization.

Learning organization. Research questions

- Are Finnish firms organized around learning organization principles?
- What are the expectations of Finnish firms for their partners, suppliers, customers, etc. to be learning organizations?
- Are Russian firms open to learning organization techniques?
- Does a learning organization framework add value to such firms?
Initial Results

- Finnish business operating in Russia are attempting to replicate their knowledge management systems and employee feedback programs
- In Russian business culture top-management direction is crucial for all decisions including creating a learning organization
- Russian managers and organizations are culturally and historically unfriendly to the conditions needed to develop a learning organization
  - Initiative is unappreciated
  - Formalization is a key Russian value
  - Managers expect workers to conform to their direction

Russian Conditions

- Importance of informal networks
- Russian Managers in a foreign owned subsidiary are at times unsure of their role and therefore return to default Russian management practice
  - Expectations of Western Managers vs local subordinates and partners
- Difference in meaning of terms and concepts – Russia definition of learning as a formal process with results i.e. diploma as opposed to continuous process
Customer perspective in network business

Rozhkov Alexander, SU-HSE
09/02/09

Research questions

- Customer Relationship Management (CRM) in B2B (Business to Business) networks: theoretical presentation

- Development of customer relationship model B2B (Business to Business) networks:
  - Relationship management
  - Communication system
  - Customer attraction and retention techniques
  - Network coordination

- Customer perspective in Russian business culture: inner and outer customer relationship in company network
External factors (as reported)

Global factors

- Russia is more exposed to crisis processes than Finland
- Construction industry is in recession
- Companies become more oriented on profit than long term relationship
- Number of customers and suppliers is decreasing dramatically
- Customer market power is increasing because of decreasing demand

Market organization

- Russian market is much more dynamic than Finnish
- Competition is much more intensive
- Legislation and certification

---

CRM model: Relationship management

**Customer relation building process**

Grey scheme in supply !

Initial contact -> Initial transaction -> Repeating transactions -> Loyal Customer (partner)

Legislation and certification

Legal agreement !

Main success factors are interpersonal relations and communication

Russian sales staff – as one of the most important instruments of adaptation
CRM model: Relationship management (2)

Main goals in customer relations

- Increase in sales volume
- Loyalty (build up by credit lines, interpersonal relations and contract terms fulfillment)
- No negative feedback
- Private label development (for individual customers)

Problem solving

- Information support on all delays
- Additional discounts
- Fees and penalties according the agreement

CRM model: customer indicators

Initial contact

- No particular criteria, all customers are good in crisis period
- Company size (?)

Repeating transactions

- Operation profit
- Contract terms fulfillment
- Sales volume growth
Intermediate Results

Areas of uncertainty

Russian partners and their customer base. (accessibility)

**Business culture aspects in Russia ➔ Value chain modification**

Relevant Literature

**Intercompany relations**


**Methodology**


**Market orientation (network level)**


Thank You for your attention!
Results for the P5: Customer Orientation and Marketing

Olga Tretyak, Marina Weck, Ekaterina Buzulukova, Alexander Rozhkov, Nikita Popov

10 February 2009

Results for the P5: Marketing

The research on Marketing perspective is organized in three parts:
developing a network of partners, implementing CRM and SCM

1a. Nurturing network of partners on the Russian market
1b. Building trust in counterweight to risks
Results for the P5: Marketing

Insights from the interviews on Market entry strategies

- Two types of Russian market entrance strategies:
  - Developing representative office -> extending market presence
  - Mergers and acquisitions of Russian companies

- Two marketing strategies:
  - Developing customers (project development, proactive product development)
  - Profit-seeking behavior

Can competitive advantages be used to cope with business environment challenges at the operation stage?

<table>
<thead>
<tr>
<th>Vision of competitive advantages by the Finnish firms</th>
<th>Business environment challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed and improving technology</td>
<td>Legal risks that are rarely understood: high administrative and criminal liability of the general director in Russia</td>
</tr>
<tr>
<td>Higher quality of products</td>
<td>Long and unclear procedure of construction project negotiation and agreement</td>
</tr>
<tr>
<td>Local production</td>
<td>Difficulties in land purchasing</td>
</tr>
<tr>
<td>Active support of the parent company</td>
<td>Trust to the Russian partners from Finnish side and disbeliefs from Russian managers</td>
</tr>
<tr>
<td>Financial stability</td>
<td>Need for permanent control of Russian partners</td>
</tr>
<tr>
<td>Comprehensive solutions for the customer</td>
<td>Often it is that the general director is the only right person to communicate with to achieve quick and quality results</td>
</tr>
<tr>
<td>High reputation and strong brand name</td>
<td></td>
</tr>
<tr>
<td>Trust, honesty and responsibility for results</td>
<td></td>
</tr>
<tr>
<td>Helping customers in solving their own problems</td>
<td></td>
</tr>
</tbody>
</table>
Results for the P5: Marketing

Building trust in counterweight to risks. What are the risks?

• While the empirical research is not fully completed, the acquired data allow illustrating only intermediate results
• Please, see the diagrams 1, 2 and 3 (in your handouts) that show the probability of identified risks involved in inter-organizational relationships and their negative effect on trust between partners as well as conditions associated with positive changes in trust

STROI network – project presentation. Discussion seminar. 9-11 February 2009

---

Results for the P5: Marketing

On the customers side, Russian sales staff is the main adaptation instrument at every stage of relationship development

Stage 1: Initial contact
- Very high entry barriers
- Difficult to embed into existing relations
- Dealing with complex construction legislation and certification
- Customer representatives demanding bribes

Stage 2: Initial transaction
- Initially very strict requirements for on-time delivery and quality assurance
- Coordination challenges when the deal has been secured

Stage 3: Repeated transactions
- Payment delays
- Contract fulfillment

Loyal customers

Solutions:
- Customer intelligence
- Getting straight to the CEOs
- Bribing reporting to CEOs of customer companies

Solutions:
- Signaling to suppliers
- Securing suppliers' commitment

Solutions:
- Getting a sense of customers' occasion
- Reaching compromise

Russian salespeople as a main vehicle for problem solving

STROI network – project presentation. Discussion seminar. 9-11 February 2009
Results for the P5: Marketing

Although marketing people deny that they differentiate between customers...

Declared: no differentiation

"The number of customers decrease because of the crisis in construction"
"Demand shrinks, so customers gain more market power"
"All customers are only seeking lower prices"
"Contracting in Russia is always formal"

"All customers are equally valuable"
"All benefits and discounts are delivered on unified contract terms"

... there is proper strategic prioritization in place

Actually, there is strategic differentiation

"We prioritize customers on the basis of…":
- Sales volume
- Growth potential
- Size of the business

"Benefits provided depending on the customer’s status in terms of…”:
- Price reductions
- Fast delivery
- Ready to adapt contracts to requirements of highly important customers
Results for the P5: Marketing

**Purchasing side:** how customer orientation imperatives translate into requirements for suppliers

**Stage 1**
Make or buy decisions and supplier selection
- Higher in-house share of production due to knowledge-sharing hostility and relational uncertainty
- Supplier capability, reputation and trustworthiness are the 3 musts
- Both delivery time and variability are advantages for suppliers
- ‘Finns prefer Finns’ vs. ‘Committed Russian partners’

**Stage 2**
Managing supplier relationships
- Managing social and contractual relationships in Russia is an area of weakness
- Certain relationship management capabilities should be developed
- High influence of social networks: relations with key people
- CEOs personal influence on decisions is not strong in purchasing

**Stage 3**
Organizing for effective purchasing
- Purchasing is not highly centralized
P 5: Customer Perspective and Marketing

5.2 Building Trust in Counterweight to Risks in Inter-Organisational Relations of Business Networks in Russia

The research aims at deeper understanding of the role of trust as a counterweight to risks perceived in the project-based relationship development between Finnish and Russian construction companies networking in Russia. The specific objectives are as follows:

- to identify the perceived risks and their sources in different stages of inter-organisational relationships,
- to determine the necessary preconditions for trust development in inter-organisational relationships,
- to examine the relation between subjective trust and perceived risks in the development of inter-organisational relationships, and
- to explore trust development process and specify the nature and distinctive features of it in the context of Russian culture.

Outcome: The model that outlines the trust development process in counterweight to risks involved in inter-organisational relationships of business networks in Russia

Research Methodology Structure
Definitions of Concepts

- **Inter-organisational trust** is defined as a manager’s belief that a partner organisation and its managers are able and willing to interact with positive intentions under the conditions of uncertainty and risks.
  - Two levels of trust: **inter-personal** and **organisational**
  - ‘**Goodwill trust**’ associates with aspects of relation itself (e.g. moral responsibility and positive intentions, i.e. absence of opportunism), whereas ‘**competence trust**’ estimates partners’ transactional reliability (e.g. technical and commercial capabilities, organizational and managerial skills and know-how)
- **Relationship Risks** refer to risks caused by disturbances inside the relationship between business partners.
  - These risks comprise of two main groups:
    - **relational risks** are related to the probability of partners’ non-compliance with the norms of co-operation,
    - **performance risks** are tied to partners’ competences.

Conceptual Framework of Perceived Relationship Risk

- **Perceived Risk**
  - **Relational Risk**
  - **Performance Risk**
- **Risk Sources**
  - Organisation
  - Individuals
Conceptual Framework of Inter-Organisational Subjective Trust

Research Conceptual Framework

- Co-operation will continue from one stage to another as long as trustor is able to relay on trust in the presence of relationship risks and an increase in trust occurs during interactions.
- The higher level of subjective trust in inter-organisational relationship provides trustor with confidence to continue the relationship recognizing that perceived risks may cause short-term losses but not threaten the trustor’s long-term interests.
### Matrix of Different Types of Trust and Risk Relation

<table>
<thead>
<tr>
<th>COMPETENCE TRUST</th>
<th>GOODWILL TRUST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td><strong>Low</strong></td>
</tr>
<tr>
<td>High</td>
<td>- perceived relational risks are high</td>
</tr>
<tr>
<td></td>
<td>- unstable business relationship</td>
</tr>
<tr>
<td></td>
<td>- perceived relationship management (e.g. control mechanisms)</td>
</tr>
<tr>
<td>Low</td>
<td>- perceived relationship risks are marginal</td>
</tr>
<tr>
<td></td>
<td>- high confidence in business relationship</td>
</tr>
<tr>
<td></td>
<td>- perceived performance risks are high</td>
</tr>
<tr>
<td></td>
<td>- doubtful business relationship</td>
</tr>
</tbody>
</table>

### Overview of Trust Development Processes

**Formal Process**
- Institution-Based Trust
- Calculus-Based Trust
- Process-Based Trust
- Characteristic-Based Trust

**Informal Process**
- Relationship Development Process
- Exploration
- Expansion
- Commitment

**Cognition-Based Trust**
- Trust Development Process
- Initiation
- Growth
- Maturity
Relationship Trust Development Processes

The formal process aggregates the following form of trust:

- **Institution-Based Trust** is based on the formal institutions surrounding a transaction such as contracts regulating business and is not dependent upon the exchange partner (McKnight et al., 1998; Rousseau et al., 1998);

- **Process-Based Trust** merges from iterative transactions between partners and positive experience of past relations (Zucker, 1986); and

- **Calculus-Based Trust** is based on credible information with regard to the intentions or competence of another (McKnight et al., 1998; Rousseau et al., 1998).

The informal process is represented as follows:

- **Personality-Based Trust** means propensity or disposition to trust (McKnight et al., 1998);

- **Cognition-Based Trust** derives through cognitive cues or first impressions (McKnight et al., 1998); and

- **Characteristic-Based Trust** is based on social similarity (common system, family background and shared values and expectations) and tied to personal and mutually ‘approved’ characteristics of potential partners (Zucker, 1986).

**Institution-Based Trust** and **Personality-Based Trust** formation processes lie outside this scope of this research.

Trust Development Process (Findings)
Trust Development Process (Findings)

**GROWTH TRUST PHASE**

- Expansion Stage of Inter-Organisational Relationship
  - Subjective Trust
    - Competence Trust
    - Goodwill Trust
  - Characteristics of Trustee
    - Organization
    - Key Personnel
  - Characteristics of Relationship with Trustee
    - Organization
    - Key Personnel
  - Trust Preconditions Based On Experience From Prior Interactions
    - Quality performance
    - Flexibility
    - Professional qualities
    - Open communication
    - Orientation to problem-solving
    - Integrity

**MATURE TRUST PHASE**

- Commitment Stage of Inter-Organisational Relationship
  - Subjective Trust
    - Competence Trust
    - Goodwill Trust
  - Characteristics of Trustee
    - Organization
    - Key Personnel
  - Characteristics of Relationship with Trustee
    - Organization
    - Key Personnel
  - Trust Preconditions Based On Experience From Prior Interactions
    - Quality performance
    - Stability in key personnel
    - Professional qualities
    - Open communication
    - Social contacts
    - Integrity
Research Findings

How to Mitigate Risks?

• An adequate attention must be paid to the importance of trust development processes within relationship evolution
• Risks associated with the inter-organisational relationships have to be managed as an integral part of trust development process
• “Haste makes waste”. Being aware and appropriate use of trust development processes allow to minimize “waste” of time
• Required level of formal processes cannot substituted by reliance on interpersonal trust of the informal process

Interestingly, the absolute majority of Russian respondents from Finnish case companies trust more Finnish partners than Russian, even though they interact with Russian managers in both Finnish and Russian companies
• This means that differences in the corporate cultures and management styles existing in Finnish and Russian companies can be more important determinants of trust in inter-organisational relationships than differences in the national cultures.
• None the less, the national culture has a certain effect on the process of trust development.
• A good example of it is as follows: “A chance you only get once. Hence, there is no possibility of being mistaken.” (Quotation from the interview with Russian manager)
P6: Performance measurement in business networks;
TOWARDS MANAGEMENT AND LEADERSHIP MODELS FOR RUSSIAN BUSINESS NETWORKS.

Seppo Niittymäki
Tampere University of Technology and
HAMK University of Applied Sciences

seppo.niittymaki@hamk.fi
In detail: www.hamk.fi/stroi

Research Questions, Approach and Research Methods

1. What are the main features of management and leadership models and Performance Measurement Indicators (PMI) used at present in Finland?
2. How should these models and PMI be adjusted to Finnish Companies in Russian business environment?
3. Constructive approach.
4. In STROI Network project both qualitative and quantitative methods were applied, 113 interviews were reported and 64 answers for quantitative questionnaires were received. Selected quotes of interviews and answers for surveys are used in this presentation.
Different Approaches of Research in STROI Network Project

1. Finnish researchers’ approach
2. Russian researchers’ approach
3. Joint approach: Triangulation

The development trends in performance measurement
(Kulmala and Lönnqvist, 2006).

<table>
<thead>
<tr>
<th>Level of performance measurement</th>
<th>Type of performance measures used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network of several companies</td>
<td>Financial and non-financial measures</td>
</tr>
<tr>
<td>One company</td>
<td>Financial measures</td>
</tr>
<tr>
<td></td>
<td>Performance measures such as return on investment have been used since the beginning of the twentieth century.</td>
</tr>
<tr>
<td></td>
<td>Is non-financial measurement at network-level the next area of development?</td>
</tr>
<tr>
<td></td>
<td>Non-financial measures became popular in companies during 1980s and 1990s.</td>
</tr>
<tr>
<td></td>
<td>The first applications of cost measures at network-level occurred at the end of 1990s.</td>
</tr>
</tbody>
</table>
**Uniqueness of the Russian Market** (Basic comments by Prof. Alex Settles (ASe), HSE Moscow, additional comments by the author and other experts mentioned.)

- Different motivations (ASe)
  - *Company Rautaruukki*: Bonus motivates more in Russia
- Differing traditions in management both Soviet and post-Soviet (ASe)
  - Prof. Olga Tretyak: Power shrinks, when costs are saved ... no tradition in cost saving
- Russian tradition of authoritative leadership equaling “effective” leadership (ASe)
  - Naulapää (2000) and company NCC’s experience
- Lack of team building tradition – hampers network formation
  - Konecranes interview, “why they don’t ask neighboring room instead of calling Finland”
- Extensive informal networks
  - *positive and negative aspects for firm*

---

**Cultural differences between Finland and Russia**

(Sources: [www.geert-hofstede.com](http://www.geert-hofstede.com) and Russian researchers Yu&N. Latov (2003) and A.Nautov (1996), which are presented with white arrows according to Filinov et al 2009)

![The 5D Model of professor Geert Hofstede](image)

- **PDI**, Power Distance
- **IDV**, Individualism
- **MAS**, Masculinity
- **UAI**, Uncertainty Avoidance
- **LTO**, Long Term Orientation

*White Arrows: Score results given by Russian researchers according to analysis of their own.*
Management and Leadership styles in Finnish-Russian Business Networks according to authors experience and interviews (Expressed as an application of Blake& Mouton -model) 


Management of Networks: Concern for Task

No efforts to tasks
Authoritarian style; money talks

Network leader

Country club, relations most important
Direction of future development

Middle of the Road (Politician)

Finns

No efforts to people

LEADERSHIP OF NETWORKS: CONCERN FOR PEOPLE

Country club, relations most important

Russian

Finns

Direction of future development

Topologies of Business Networks (VTT)

Supply-chain
(Process oriented)

Hub and Spoke
(Main contractor)

Peer-to-peer
(Project oriented)
STROI project perspectives:
Main success factors

P1: Business sector for a networked company

Networked company’s main targets for business in Russia

P2: Common vision of the network

Description of the business network

P3: Competence of human resource

Development relationships in the network; HRM in Russia and Finland

P4: Internal development

Working environment (Learning organization); Network growth; Decision-making in a networked company

P5: Customer orientation and marketing

Trust-building in inter-organizational relationships; Supplier/Customer relationships management

P6: Measuring network performance

PM in the network; PM in the network

Balanced Score Card -structure of the Stroi Network -project

Business Sector

Vision of the Business Network

Customers

Finance

Learning and growth

Internal processes
3) The Network Score Card (NSC) approach
(Järvenpää, 2009)

Financial indicators (growth, profitability, network value)
Customer perspective
Network processes (efficiency, flexibility, productivity, innovation, learning, etc.)
Network's operating models (control)
Network resources (e.g., know-how, relationships)

Network culture (trust, community, interaction)

Main aspects of the network performance measurement
(Sivadasan et al., 2002; Westphal et al., 2004)

Reliability of the partners
Measuring whether materials, information or resources are delivered in the agreed cost, quantity, quality and time. There are also trust-related aspects of reliability, such as keeping information confidential when agreed, and no advantage is taken of the partners’ problems.

Commitment to the network
Measuring information and knowledge sharing, decision synchronization and incentive alignment among members of the network

Flexibility or the ability to respond adequately to a changing environment
Identifying the ability of network members to absorb problems of other partners, and coping with them

Commitment to the network
From Balanced Score Card (BSC) to Network Score Card (NSC)

In Finland: purchasing department
Russia: gifts and services

In Finland: competition
Russia: relationships

Network
Culture

Finances

Network Resources

Learning and
Growth

Networks

operating
models

A Model for Planning and Implementing Strategy in Project Business

Targets

Performance

Measurement

Forecasts

Indicators

P1: Business Sector
P2: Network Vision
P3: Human Resources
P4: Internal development
P5: Customer orientation
P6: Finance

PESTE

P1: Performance Matrix
P2: Network Matrix
P3: Human Resources Matrix
P4: Internal development Matrix
P5: Customer orientation Matrix
P6: Finance Matrix

26.2.2010

Network, Sampo Niittymäki

2042010
Most important factors to be measured according to the Stroi Interviews and Survey

1. Market share
2. Company reputation
3. Customer satisfaction
4. Market share of network
5. Innovations from customers
6. Staff turnover
7. Staff skill level
8. Development and appraisals
9. Work satisfaction
10. Ability to form networks
11. Procurement system
12. Trend of work accidents
13. Trend of productivity
14. Innovations
15. Dividing benefits of innovations
16. Return on Capital Employed, %
17. Profit out of turnover, %
18. Growth of turnover, %
19. Order book change
20. Profit of a product, %
21. Liquidity
22. Punctuality in delivery times
23. Number of reclaims
24. Confidence, trust
25. Common NW development
26. NW Risk sharing
27. Streamlining activities
28. Common development
29. Knowledge sharing
30. Capital

Most important factors to be measured on the basis average values

Reliability according to method triangulation with two different methods:
Red circle: difference more than 20%.
Green circle: difference on results less than 20%.

Web-robol Interview
The Most Important 14 Factors to be Measured in Different Perspectives (P1-P6) on the Basis of Triangulation of Different Datasets (Interview and web-robol survey)

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<th>P1: Business Sector,</th>
<th>P4: Internal Development</th>
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