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### **Management of Companies in Conditions of Eastern Europe Countries and Russia – Barriers and Challenges**

**Key words:** *activity of enterprises, international market, intercultural management, qualifications, differences in approaches, countries of Eastern Europe and Russia*

#### **Introduction**

Forming one of the priority areas of the Czech Republic's strategy is the activity of companies of the Czech Republic on international markets. Not all areas hold the same level of interest for Czech companies doing business internationally. Lately the opinion has prevailed that in their international enterprising, companies should be concentrating more on the markets of Eastern Europe and Russia, which seem to present a significant opportunity for them. One of the major barriers to this activity is mainly the lack of technical expertise of companies. This concerns the lack of knowledge of the local customs relating to practical and financial management, corporate culture, conditions for doing business, tax requirements, and problems and implementation of business activities.

In this article, we aim to define the theoretical basis of the culturological concept of the company. We address certain differentiations of the countries of Eastern Europe and Russia, which stem from their culture, and may directly or indirectly influence the success of business negotiations and transactions. In conclusion, we present results of a two-year project resolved within the framework of the European Structural Fund (ESF), which aimed at increasing knowledge of academicians and explicitly, of business and entrepreneurial subjects in the area of intercultural management.

### Theoretical bases

The culturological concept of the company mainly means the specific methods of interaction and communication between people. It refers to the principles, rules and social norms influencing and regulating mutual cohabitation in a certain community. This concept is valid in relation to the enterprise, but will also be valid in relation to the wider surroundings, as well as abroad. Intercultural management in our opinion must start from this concept.

The origin of culture may be given (Nový, 1996)

1. by spontaneous consequence of natural negotiations of company employees, stemming in part from personality and individually differing characteristics of employees, and in part from external rules and conditions influencing their working behavior.
2. as the result of systematic and purposefully oriented activities of managers.

This always concerns three hierarchies of an organized level (Schein, 1989)

- basic life impressions are always individually different, and stem from age, attained work and life experience, technical orientation and attained level of education, family upbringing, current family background and in-born characteristics of personalities such as talents or temperament,
- the rules of working and social behavior may occur spontaneously as informal social standards, or entirely on purpose, with clear aim or more or less exact characteristics of working positions and roles, forming an internal structure and regulating the internal functioning of the company,
- symbolically, i.e. in briefly defined aims and basic principles, such as logo, company colors, uniforms, rewards, company anniversary celebrations, mutual addressing, stories and anecdotes regarding company events.

There exist plenty of research projects dealing with the differences of individual national cultures. Perhaps the most extensive of these was performed by a Dutch man, Geert Hofstede. Originally an HR director, he attempted to attain cooperation amongst 64 national branches of IBM. Hofstede (1983) describes five dimensions, in which national cultures differ:

- Power Distance Index
- Individualism

- Masculinity
- Uncertainty Avoidance Index
- Long-Term Orientation

From comparing the results, one can see that each of the researched national cultures has a different understanding of values. In practice, this leads to the fact that each national culture will consider as appropriate absolutely differentiating approaches towards other people and towards work tasks. From this viewpoint, national culture is often a significant barrier to cooperation, which would otherwise be very beneficial. We look at how it is possible to handle such cultural differences.

The position and meaning of management has always been bound to the condition and development of social relationships. Managers must be capable of negotiating in varying economic, political and cultural environments. Management isn't limited by national borders. Managers who constantly fail to follow changes in the global environment or in their work, forget about specific characteristics of the environment probably achieve only very marginal success. They may generally use three possible approaches: ethnocentric, polycentric and geocentric.

The ethnocentric approach is the provincial conviction that the best working procedures are those used in one's own country. Based on this approach, managers are convinced that people abroad do not have the necessary skills and experience to make good decisions. They will not trust employees located abroad in basic decisions or in technology.

The polycentric approach is founded on the opinion that managers in a given country abroad know work procedures necessary for business the best. Managers who apply this approach regard all operations abroad as something different and hard to understand. They therefore let their branches be independent, so that their managers could function to the best of their abilities.

The geocentric approach is given by the fact that managers aim towards using the very best existing approaches, because they believe that it is important to uphold a global view both in company management within a given country, as well as in various branches abroad. The majority of decisions are accepted from

a global perspective, the best practice is sought after without regard to its country of origin.

The geocentric type corporate culture (Nový, 1996) represents using specific features of individual national cultures in the interest of a single common culture. This then represents an integrated unified culture, which is not the result of dominance, but of purposeful and effective engagement of all regional components of an international company. The reason is the process of globalization of economic processes and modern trends in the area of management. The meaning of intercultural competence is growing, such as the capability of a worker to handle the demands of work in an international team, and in a different cultural environment.

Misunderstandings occur because people consider their own cultural patterns as being valid anywhere and natural. Every manager must learn to perceive a person from another culture only as simply different, and to not judge his/her values by the manager's own value measures.

Intercultural communication requires handling three basic phases of this social skill:

1. realizing cultural differences,
2. gaining knowledge about another culture
3. personal experience with active communication.

The importance of business, economic, and technical cooperation with those abroad is a fundamental condition for functioning of the Czech economy, upon its limitation in both scope and natural resources. Therefore it is useful to develop foreign trade, which however must rely on intercultural management, including knowledge of communication, internal conditions of partners and their culture.

### **Basic differences in approaches of countries of Eastern Europe and Russia influencing business contact**

As it was already stated in the article, intercultural communication, in its first phases, requires realization of cultural differences, and the gaining of knowledge about another culture. We'll briefly point out the local customs of the countries of Eastern Europe and Russia, which just might play an integral role in business contacts, as entrepreneurs in the Central European environment have learned.

Geographically, Eastern Europe encompasses the countries of the Ukraine, the European part of Russia, Belarus and Moldova; also, small parts of Azerbaijan, Georgia, and Kazakhstan extend into Europe. During the Cold War, the European satellite states of the USSR were inaccurately (in terms of geography) called Eastern Europe. The result of this often includes as countries of Eastern Europe even the so-called Baltic states (Estonia, Latvia and Lithuania). In addition, it is possible to also add determination in the ethnic, language and cultural senses, according to which it is possible to consider as Eastern Europe even the areas of Europe where Slavs live (see wikipedia).

### **Russia**

The culture of business negotiations, mainly in regions, is still a jumbled European-Soviet approach, and in certain locations, it is even a Muslim-Oriental approach. Negotiations, which are often complicated by various bureaucratic limitations, are often difficult ordeals, requiring patience, purpose and selection of a business partner in the region with close contacts to administrative bodies (a certain “insurance” of safe trade and protection from extortion (rackets). The possibility of concluding an agreement right after the first meeting may be considered as very unlikely. Of course for the newly arriving generation of businessmen, it is possible to see a return to rationalization, which even appears in the way the business meeting is held. Long-term personal contacts, founded upon mutual trust, significantly decrease the danger of improper practices.

In the business meetings in today’s times, we may most frequently get into contact with businessmen, who form the current entrepreneurial sphere, formed mainly from the ranks of entrepreneurs, representative of financial-industrial groups, oil, gas and export companies. It is typical for them to be well-traveled, they have an understanding of the offer and they are no stranger to the Anglo-Saxon negotiating style. For these people, logical and conceptual thinking and a pragmatic approach to resolving the problem prevail. Here, one can also expect formal authority of the delegation leader, and it is necessary to respect the hierarchy of one’s Russian counterparts. It is not recommended to develop pressure on the partner, but rather to provide him with time. Agreements drawn up in writing carry heavy weight. Meetings are conducted in Russian (mainly amongst the older generation), whereas for the younger generation, knowledge of two world

languages is no exception. The business card has great importance in the business meeting, addressing people using their academic title, as opposed to Central European customs, is used from the level of a doctorate in science and above. It is not possible to underestimate the business partner, since the vast majority of entrepreneurs have university education, experience in management functions, very good knowledge of local conditions, and the capability of thriving therein. Russia is a state with many nationalities with a palette of widely varied cultural, ethnographic, and historical traditions. For these reasons, as well as with regard to the demographic aspect, it is not possible to assess in one lump sum the working habits of the citizens of the RF. Plenty of motivation exists for the new management mainly in the private sector to work many hours overtime (here too we can find workaholics). Interpersonal relationships: In the supervisor-subordinate relationship, stiffly authoritarian rules apply, which of course does not exclude the potential for very informal relations amongst employees, including social celebrations right at the workplace. Superiority is sometimes made apparent even during negotiations with a foreigner, if the partner is of a lower rung on the company ladder. In public locations, it is often possible to meet with people who have a "watchdog complex" - gate watchers and receptionists, security guards, secretaries, who don't hold much power, but try to make you think they do. Another quirk is the true passion for celebrating holidays of all kinds. The scale of values is analogous with European traditions - one's family, children and health are the most important. In terms of their relationship with nature and the environment, indifference persists. The value of time is understood differently than in Central Europe. This somewhat more benevolent relationship of Russians towards time appears here not only in personal punctuality/tardiness, but also in official situations, such as the working period, office hours or mass transit timetables. But punctuality is expected from European partners, because in Europe it is a part of cultural traditions and business customs. When planning a term of a meeting in large cities, it is therefore necessary to take into account the transportation factor, and plan for a reasonable (around 1 hour) reserve in time.

### **The Ukraine**

The local customs are getting ever closer to normal European standards, especially amongst the younger generations. In other people, certain customs from

periods gone by may still live on, so one must expect that a positive interpersonal relationship may be more important than the written word. Also expect a certain level of unreliability - ex. even in terms of punctuality - sometimes with the effort to take advantage of a partner. As far as language goes, certain members of the younger and middle-aged generation have a handle on English, and sometimes with remarkable proficiency. In general of course - and especially outside of the center - it is necessary to speak at least Russian. Knowledge of Ukrainian is best, mainly in the western parts of the country. If we speak Russian here, it's a good idea to excuse ourselves, pointing out that we don't know Ukrainian - then as a rule the hosts switch to Russian without any problems.

### **Belarus**

For a foreigner here, certain formal measures apply that relate to a visit to the territory of Belarus. By law, it is necessary to declare one's visit to the local department of the militia within three working days from crossing over into Belarus. If being accommodated, responsibility for registration with the authorities automatically falls to the subject/person providing accommodations. Upon arriving in one's own car, the foreigner here is required in this country to request the issuance of a Belarusian driver's license if he is to remain in the country for longer than 3 months. Within three months, foreigners need only present an international driver's license, or the driver's license of the appurtenant country, which however must correspond to the Vienna Convention of 1968 on Road Traffic. Foreigners arriving here temporarily are required within ? days to register at the passport and visa services office (OVIR) of the district police office. In the event of a stay for shorter than three days, whether it be working days or working holidays, and one leaves Belarus in the precisely defined term, registration is not required. Registration of a foreigner to stay within 90 days is subject to a fee, whose amount depends on the decision of the City Executive Committee. Specific rules also apply in the exchange of currency and the regime of import and export of funds. One of the local customs that stands in contrast to some republics of the former USSR is the rather stringent upholding of times for gatherings and meetings; a maximum of five minutes is acceptable without having to excuse oneself. During introductions, it is appropriate to present the partner with a business card in either Belarusian or Russian, but English business cards don't represent any barrier.

When addressing them, it is common to use the first name and the name of the father (patronymic name) „otčestvo“. For Czech businessmen, a rather uncommon thing may occur, where Belarusians begin using the familiar form of address already at the first meeting. During meetings, the younger generation negotiates in a fully European manner. In the vast majority of cases, Russian is the language used for negotiating and communicating. Upon previous explicit agreement with the partner, it is possible to communicate in either English or German. We recommend carefully verifying the data on the partner and the company, if it doesn't concern a previous long-term contact. The local market is rife with enthusiastic people wanting to strike “big deals”, but do not have the necessary financial or other material conditions, and they feel that the foreign partner will be bringing all that along with him. Many don't have the basic economic knowledge, and they haven't properly justified their projects economically. They best establish personal contacts sitting at the table during informal negotiations. Working lunches normally lasting about two hours usually begin around 1:00 p.m. - 3:00 p.m., with a working dinner usually beginning at 7:00 p.m. The course of consumption is accompanied by regular toasts, it is expected from hosts to give a toast to perspective cooperation, to the partner, his wife and family. Toasts are seldom brief and are always a demonstration of one's gift of eloquent speech. A simple Czech “here's to health” could be considered insincere. Everyone drinks at the command to so do, and it is most frequently local high-quality vodka. It is not out of the ordinary that after a certain period of cooperation, the business partner is invited to visit the Belarusian's cottage and their sauna. This environment often hosts some of the largest business deals. Often guests are presented with small gifts (vodka, publications, folk souvenirs, etc.). Prior to traveling, it is necessary to expect this and also bring several gifts along. Favorites include Becherovka, Czech beer, ground glass pieces, jewelry, etc.

### **Kazakhstan**

Like in the majority of eastern countries, in Kazakhstan, business also has a certain social level of its own (it is the first prerequisite for success). It is necessary to expect that you won't get by without personal contact with a potential partner. Likewise, business meetings especially in Kazakhstan are accompanied by various, often long-lasting and hearty lunches or dinners with plenty of toasts. Not



the least of which, it is necessary to speak good Russian, because in Kazakhstan, knowledge of languages is rather weak. One can't expect business success by sending out a lot of emails in English with links to WebPages. Another important moment is that the company in Kazakhstan is relatively patriarchal, and mainly the first contacts on a personal level should include men rather than women. It also isn't good to underestimate one's potential partners. Perhaps they just don't know English that well, and aren't capable of holding deep theoretical discussions about international business. But what they do have is very good knowledge in the way things run in their local environment, and they know how to quickly ascertain information thanks to contacts with their relatives, friends and acquaintances. It is also necessary to respect the fact that Kazakhstan, although it may appear upon first glance not to differ much from Europe in its customs, is an eastern country with a strongly oriental way of thinking. This concerns accuracy, the capacity for upholding oral and written agreements, unreliability, the incapacity for empathizing with the partner's problems, etc. Other examples include the lack of upholding traffic regulations and irrational aggressiveness not only in transportation but in interpersonal relationships. Oftentimes, polite behavior is regarded as weakness. One must also consider their very strong family ties.

### **Georgia**

A characteristic of the local environment is mainly the fact that it is important to verify data regarding the partner and the company, since here, just like everywhere else, various "hustlers" operate. Still other businessmen don't have the necessary financial or other means, and assume that this will be provided by the foreign partners. Not all of them have the necessary knowledge of economics. Therefore, for doing business in Georgia, it is good to have a capable and trustworthy point of contact or an agent (broker) for finding good local partners and for gaining an understanding of Georgian culture. This is important for doing business here, and it is a good idea to know one's partners on a personal level. A visit to Georgia is very important, especially in the case of a planned signing of an agreement. Communication and marketing are a work in progress. When communicating, Georgians often use the form of address "Mr./Mrs. + first name", for persons whom they don't know personally, over the phone for in-

stance, even with persons holding senior positions. The Georgians are a nation of great hospitality. They love food and cooking, and despite economic problems, they uphold the tradition of sitting down together at the dinner table. Aside from other benefits, this strengthens relations with family, friends and partners – invitations to restaurants, or possible to the business partner's home should not come as a surprise. Of course in regards to the fact that a part of sitting down together includes quite a bit of drinking, it is necessary to beware, as the locals are capable of drinking impressive amounts without even appearing drunk. Drinking alcohol (wine, cognac or vodka) is accompanied by toasts, which are clever, long, and depend on the fantasy and art of speaking of the one presenting them. If the group around the table exceeds 2-3, one of them is the so-called tamada, who "moderates" the table, i.e. the person to make the toasts and who may delegate other to do so. Georgians highly appreciate when a foreigner is capable of giving a well thought-out toast (not just a simple "here's to health"). Guests often receive gifts, normally local wine, and it is therefore appropriate to expect this. Traditionally, the favorite Czech articles known already from the Soviet era are cut glass, jewelry and beer. During personal contact with Georgians, it is often surprising to learn how much information mainly the older generation knows about the Czech Republic, or Czechoslovakia. Thanks to relations during the existence of the USSR, many of them came to the CSSR as tourists, on working visits. Still others served here as soldiers or airmen in the Soviet armed forces, etc. It is therefore a good idea to familiarize oneself about general information on Georgia.

### **Moldova**

Moldovans are mostly very warm and open; it is possible to run into a colder, unpleasantly businesslike approach when dealing with official bodies or police units. Personal contact is recommended in business. Local businessmen are used to work meetings or at least their culmination at a richly laid table (Moldova is known for its wine and brandy). The foreigner coming to this country should keep in mind that Moldova is a young and independent country, and in many areas objectively poorer or less developed. Nevertheless, they defend their independence robustly, and are highly sensitive to any gesture of power or the like. Mainly in the area of Podněstří, expect a strong Russian influence. Moldova is more or less bilingual, but in certain regions, Moldovan is strongly preferred

(Rumanian with small deviations and pronounced more softly). In other places, Russian may dominate.

### **Estonia**

In case nobody in the delegation can speak Estonian, it is appropriate to begin the business meeting in English. Later it is possible to switch to Russian, especially with the Russian-speaking citizens of Estonia, or with the older generation of Estonians.. The use of Russian at the beginning of the meeting could bring about an unpleasant atmosphere. The Czech entrepreneur should be well prepared and conduct himself assertively. Estonians prefer a direct, matter-of-fact and pragmatic approach. It is recommended to present the qualities of the offered goods the represented company without the slightest hint of doubt. Estonian officials are known for their adherence to the letter of the law, and unwillingness to improvise. One problem sometimes is their critical attitude towards their own capabilities.

### **Latvia**

Aside from the entire month of August, when nearly the entire country of Latvia goes on holiday, business can be conducted throughout the year except for the state holidays that Latvians celebrate. It is a custom to address people with their first names practically immediately from the first moment of initiating contact; titles are rarely used. Latvians in general are used to going to sleep late, waking up later in the morning, and eating lunch around 2:00 p.m. A big advantage is usually to find a business partner with contacts to state or local administrative bodies. It is necessary to expect persisting bureaucratic limitations and customs. Much more frequently than in the CR, flowers are given (even to men), and they are presented as a rule during visits. Women in Latvian society have a visibly higher position than in the CR, including at the highest political posts. A small delay is more the rule than the exception, and is obviously usually tolerated by the other party (traffic jams in the capital city of Riga); despite this, we recommend arriving at the meeting on time.

### **Lithuania**

It is necessary to uphold the exact time of the meeting. It is recommended to wear formal clothing that is conservative and dark in color. A gift even during the

first meeting is no problem. Regular use of one's first name doesn't signify familiarity and friendship, but rather a custom in business circles even because Lithuanian last names are hard for foreigners to remember. A big car, luxurious watch and staying in an expensive hotel are not considered to be ways of throwing away money; rather, they add prestige. But they are not necessary. Negotiations on price and terms of delivery are stubborn, as sales margins are higher than in Western Europe. The generally good relationship with the CR also appears in the area of business.

### **Discussion**

From the aspect of evaluating basic information about the countries falling into the monitored territory, we can state that this information varies greatly in terms of both its completeness and its material content. Information is even rather scant regarding some countries such as Azerbaijan. From the viewpoint of possible opportunities for Czech subjects, other interesting countries include so-called northern Europe (the Baltic states: Estonia, Latvia and Lithuania). During the Cold War, the European satellite states of the USSR were inaccurately (in terms of geography) called Eastern Europe. That is the reason that these countries are often included as countries of Eastern Europe, although this isn't geographically entirely the case. Learning the local customs related to practical and financial management, company culture, conditions for doing business, tax requirement and problems and implementation of business activities form an area, which was resolved by the project at the Business and Management Faculty of the Technical University in Brno under the heading Management in Conditions of Eastern Europe and Russia with the identification number CZ.1/4/03/2/3/15.2/0257. Its global aim was to increase qualification of academic and research workers in the area of managing enterprises, which have decided to operate on the markets of Eastern Europe and the European part of the Russian Federation, and to subsequently transfer this information into practice.

### **Research**

Within the framework of the project, research was performed on the educational needs of the members of the target group. Managers of businesses in the South Moravian Region engaged in the research. The main typological constant

for selecting addressed members of the target group was the interest in internationalizing their enterprises towards the east. For the actual research inquiry, the methods of questionnaire examination and controlled interviews were employed. Mainly examined were the motives of the companies for engaging in internationalization activities eastward, the type and form of knowledge, which would make their activities easier for mutual sharing of experiences in the future.

### **Conclusions**

The results of the project are followed by the fulfillment of the following partial aims:

A) assessment of practical and financial management, corporate culture, conditions for doing business, tax issues and commercial activities, including differences with businesses in the CR.

B) preparation of perspective academic and scientific workers (ambitious students and doctoral study program graduates), who will subsequently transfer the information and knowledge gained into development of more fitting subjects for study programs, into development of theoretical and scientific findings in the given area, and into the everyday practice of the region's businesses.

C) creation of specialized education programs for preparing business managers to increase their ability to compete.

D) education of interested parties in further study of practical and financial management of companies, corporate culture, conditions for doing business, tax issues and business activities.

Also supporting the need for education in the area of managing companies aimed at the countries of Eastern Europe and Russia was the meeting with representatives of the University of Applied Sciences in Stryer (Austria). It explored the possibilities of cooperating in the area of educational programs aimed at internationalization and intercultural management. The university is preparing an MBA program that should be realized by the form Joint Degree. The aim of the program should be oriented towards just this area of doing business in the countries of Eastern Europe, of the Former Soviet Union and in Russia. Touched on briefly were the possibilities of future incorporation of courses formed within the framework of the ESF project into the offer of this program.

A wealth of valuable information has already been gained from representatives of authorities and representatives from the entrepreneurial sphere.

Also formed was a framework of territorial analyses, which will be the core information source for creating courses. This framework is an outline, which is gradually filled in by members of the project team in individual areas of interest.

The issue is thematically divided into five categories:

- a) practical and financial management;
- b) company culture, habits and practice;
- c) legislative-legal conditions for doing business;
- d) tax issues;
- e) business activities and conditions.

In terms of territory, it is expected that the main subject of interest is formed by the countries of Estonia, Latvia, Lithuania, the Ukraine, Russia and Azerbaijan. One of the aims that are gradually added is the determination of the difference of regional, national and supranational importance. The project is realized based on the aim listed in the project request. Based on information gained when resolving the project, and also thanks to the recommendations of foreign experts, a Webpage was created on the project presentation Website ([management.esf-fp.cz](http://management.esf-fp.cz)) with links to an entire series of Internet source dealing with the issue at hand. Currently, a new version is ready, which will be arranged in a matrix organized by both country and by individual categories of interest. By doing so, the project team is reacting to one of the most frequent requests of involved representatives of the target group upon examining their needs.

The project is beneficial in its aim, it is contemporary, and will have specific outputs. The selected countries are amongst those nations, which in our opinion are important for our economic development towards further economic and business cooperation.

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### Summary

*Forming one of the priority areas of the Czech Republic's strategy is the activity of companies from the Czech Republic on international markets. Not all areas hold the same level of interest for Czech companies doing business internationally. Lately the opinion has prevailed that in their international enterprising, companies should be concentrating more on the markets of Eastern Europe and Russia, which seem to present a significant opportunity for them. One of the major barriers to this activity is mainly the lack of technical expertise of companies. This concerns the lack of knowledge of the local customers relating to real and financial management, corporate culture, conditions for doing business, tax requirements and problems and implementation of business activities. The aim of this article is to define the theoretic basis of the culturological concept of a company, to draw attention to certain basic differences in approaches of countries of Eastern Europe and Russia, which seem to be important for Czech entrepreneurs to realize business contacts. The methodology of the solution is founded on background research of key theoretical sources and practical experience and outputs gained within the framework of international contacts with these countries. The research and conclusions relate to resolution of a project resolved through the program "Human Resources Development" with the priority "Development of Life-long Learning", the aim of which is to increase qualification of academic and research workers in the area of business management, and to consequently introduce this information into practice. This article was created within the framework of the ESF project entitled "Management in Conditions of the Countries in Eastern Europe and Russia" with identification number CZ.1/4/03/2/3/15.2/0257.*