



# UNDERSTANDING NATIONAL CULTURE AND ETHICS IN ORGANIZATIONS

A STUDY OF EASTERN  
AND CENTRAL EUROPE

**Edited by**  
**Iulian Warter PhD and Liviu Warter PhD**

# **Understanding Culture and Ethics in Organizations**

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# Understanding Culture and Ethics in Organizations: A Study of Eastern and Central Europe

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# Introduction

*Iulian Warter and Liviu Warter*

The theme of this book is the nexus between ethics and national culture, with a special focus on Eastern European countries. Understanding the nuances of cultural differences as well as different perceptions of business ethics will allow a finer understanding of the differences in business styles between Western and Eastern European countries.

Eastern Europe, as defined by the United Nations Statistics Division, includes the countries of Bulgaria, Czech Republic, Hungary, Poland, Romania, Russian Federation and Slovakia, as well as the republics of Belarus, Moldova and Ukraine. A number of countries (Czech Republic, Hungary, Poland, Slovakia) that are considered part of Eastern Europe are sometimes referred as part of Central Europe.

This book reveals some leading questions in business research, linking ethics and national culture, with a particular emphasis on Eastern European countries. The main questions that should be answered are ‘Which are the cultural particularities in Eastern European countries?’, ‘What is the relationship between ethics and national culture in Eastern European countries?’ and ‘How to be successful in business in Eastern European countries?’.

This book addresses the stereotypes regarding Eastern Europe’s specific culture and ethics, especially business ethics. Many books and articles written by Western authors and even Eastern authors are written in a period marked by deep biases.

This volume’s approach to culture and ethics leads to unique and new perspectives on Eastern part of Europe. Exploring the dilemmas in Eastern Europe can lead to solutions for practice. This book deals with topics from several important industries for investment in Eastern Europe (automotive, healthcare and offshore services).

By improving our understanding of the relationship between business ethics and national culture, with a special focus on Eastern European countries, this book contributes to the integration of theories, concepts and results from different research traditions and in this way helps to better our understanding of management.

The intended audience for this book consists of managers, ethics and intercultural management scholars and business owners. Improving the alignment or congruence between ethics and cultural contexts yields tangible business benefits.

This book can help the management of international companies to identify the management problems that may confront Western companies in their operations in Eastern European countries.

Different cultural groups may have different conceptions of what business ethics should entail. Within Europe various cultural clusters can be distinguished. Two broad clusters or patterns of cultural values can be mentioned, contrasting the Western and Eastern part of Europe. Within these clusters, differences in business ethics to a certain extent mirror differences in culture. It is hardly possible to speak of a single typically European culture or one distinct European business ethics. Attributes such as an autocratic style, diplomacy, face saving, procedural, administrative skills and status consciousness are more strongly endorsed by managers from the Eastern part of Europe, who also describe the culture in their societies as higher on power distance and lower on achievement and future orientation. Lower scores on future orientation and performance orientation and higher scores on power distance of certain countries might partly reflect the ongoing experience with the transition from a command economy to a free market economy.

7 of the 12 chapters are written by authors from Western Europe or United States, while the rest are written by Eastern European authors. There is also a balance between scholar authors and practitioner authors.

The first two chapters reveal the intercultural issues in the automotive industry in Eastern Europe and particularly in Russia. Chapters 3 and 4 analyze Eastern Europe from a cultural perspective of Western European citizens. Chapters 5 and 6 reveal the view of two US citizens on Eastern European culture and leadership. Chapters 7 and 8 highlight the nexus between culture and ethics in Eastern Europe. The first deals mostly with business ethics, while the second approaches the healthcare system and organizations. Chapter 9 reveals the influence of cultural dimension on Romanian citizens' perception of the political system and democratic order. Chapter 10 deals with the elements of diversity considered as opportunities and not as obstacles in mergers and acquisitions (M&A). Chapter 11 explores the implications of identity for ourselves and for our society from an intercultural practitioner's point of view. Chapter 12 deals with the dynamic growth of service offshoring industry in Central and Eastern Europe (CEE) and the organizational culture problems.

**Vincent Montenero and Philippe Very** investigate how should foreigners manage a partnership or an acquisition in Russia. They show the maintenance of a strong national culture that generates a need to cope with uncertainty for foreign firms. When transferring practices, foreign managers need to organize hybridization processes in order to successfully import these practices. Hybridization means transferring but adapting in order to impregnate them with the Russian specificity.

**Liviu Warter and Iulian Warter** reveal that M&A are a strategic choice to grow quicker, enter new markets and maximize companies' capabilities. Within the automotive industry this phenomenon has been seen repeatedly with examples like the Mitsubishi – Daimler, Jaguar – Ford, Daimler – Chrysler, Seat – Volkswagen. In their chapter, the focus is on the intercultural issues of the M&A

phenomenon. The underestimation of the cultural factors has significant impact on why M&A operations sometimes fail to achieve the predefined goals.

**Fabrizio Maimone** aims to elaborate an integrative approach to the study of cultural differences/convergence within and across the borders of Eastern European countries, in order to conciliate the two theoretical perspectives prevailing in the debate on cultural diversity management: the emic and the etic theoretical stances. The author tries to propose a 'third way' to cultural analysis that includes the two perspectives, within a wider and complex multiparadigmatic and pluralistic framework, with a specific focus on Eastern European cultures.

**Huib Wursten** shows that the Eastern European countries are culturally not homogeneous. The author shows that as a result of privatization without a firm legislation, the superficial layers of culture were polluted. The necessary trust between authorities and citizens, between bosses and employees, disappeared. This affected the 'rules of the game'. Slowly this trust is restored. The European Union is helping because of the pressure put on the single member states in staying within the boundaries set by the European Union for democracy and the rule of law.

**Chris Cartwright** attempts to establish global leadership broadly and intercultural competence specifically as constructs of leadership that are essential in the global context and accessible and applicable within the Eastern and Central European context. The author highlights the patterns of culturally bounded values and behaviors that can be found in Eastern and Central Europe. He shares different frames that can and/or have been employed to examine global leadership in Eastern or Central Europe.

**Melissa A. Hahn** intends to prepare expatriates and businesses to live and work in Central Europe. The author introduces the concept of culture and cautioning that Central European culture is not monolithic but contains variety and layers and explains that the boundaries of Central Europe are hard to define and warns that the labels Central and Eastern European may carry significant meaning for locals. The author also argues that history is essential to understanding contemporary life in the region and uses Hofstede's model to explore three key dimensions of Central European culture.

**Iulian Warter and Liviu Warter** uncover the most important cultural issues applied to business ethics in order to improve the knowledge concerning business in Eastern Europe. The authors underline that national cultural values provide a context for discussing ethics and ethicality, but not an explanation of why there are differences in ethical values. The organizational culture is quite homogeneous among ECE countries, but the national cultures remained different. Organizational cultures in ECE are characterized by highly centralized structures, dislike of uncertainty, preferences for formality and strong collectivist attitudes.

**Beatrice Gabriela Ioan, Roxana Elena Rusu and Bianca Hanganu** analyze the health problems faced by the Roma population, their causes as well as the barriers to Roma access to adequate medical care. There are numerous barriers to accessing medical services by the Roma patients, such as language, low education, lack of information, discrimination in medical institutions, lack of medical insurance or identity documents and also the relationship with medical staff. The

authors conclude that the medical staff has the ethical obligation to provide culturally sensitive medical care.

**Silviu-Petru Grecu** underlines that one of the most important determinants of the democratic order is considered the cultural dimension. Beyond the political institutions and economic indicators, democracy is based on historical heritage, cultural patterns, political attitudes and behaviors. The author concludes that low rates of tolerance are related with the inactivity in the social or political sphere, generating a syndrome of political apathy and alienation. In correlation with personal values, social implication and tolerance, we have emphasized the respondents' cognitive bias regarding the meaning and directions of the democratic order.

**Rosa Caiazza** shows that the combination of structures, systems, processes and people imposed by M&A is a complex process that needs to be properly managed. The author reveals that in cross-border M&A, differences in organizational cultures increase the complexity of the integrative process and make it difficult for the companies that proceed to the merger to reach the preordained synergies, the problem linked to the diversity of the national culture is added.

**Simons George** addresses the role of socially constructed and mediated narratives in shaping and maintaining identities as we know them, highlighting the importance of identity formation by self and with others in the contemporary environment which is experiencing new challenges posed by the flood of news media and the tools now available to create and disseminate it, as well as the challenge posed by developments in Artificial Intelligence that are potentially invasive of privacy and even threats to personal autonomy.

**Damian Kedziora** aims at contributing to the understanding of corporate culture at the CEE service delivery organizations, which has been the dominant factor influencing their effectiveness and quality of delivery. His exploratory, pilot study is conducted at the sample of three organizations from three countries in the region. With minor exceptions, the results highlight positive perception of key organizational culture's elements across employee (e.g., communication, goal setting, team work, reward orientation, innovativeness standards).

## Chapter 1

# Cultural Hybridization in the Russian Car Industry

*Vincent Montenero and Philippe Very*

### Abstract

How should foreigners manage a partnership or an acquisition in Russia? We know a lot about Russian culture per se, but research on foreign companies having to deal with Russia remains scarce. To answer our question, we used the concept of nationally bound administrative heritage to identify how foreign practices are efficiently implemented in Russia in the context of partnerships and acquisitions. We interviewed 16 Russian managers working in the car industry about their perception of foreign practices and how things ought to be done. Our investigations show the maintenance of a strong national culture that generates a need to cope with uncertainty for foreign firms. For local people, Russia is a particular country, not comparable to others. When transferring practices, foreign managers need to organize hybridization processes in order to successfully import these practices. Hybridization means transferring but adapting in order to impregnate them with the Russian specificity. Such hybridization requires foreign managers to work and network locally for the implantation of practices.

*Keywords:* Culture; administrative heritage; Russia; hybridization; car industry; localization

### Introduction

How should foreigners manage a partnership or an acquisition in Russia? Russia has a long history linked to communism and planned economy. Despite its opening to the world economy after the fall of the Berlin wall in 1989, administrative traditions remain strong in a nation where natives think of being ‘a different country’ (Ivancevitch, DeFrank, & Gregory, 1992).

The concept of national culture is used in most studies about international alliances or acquisitions in order to identify issues faced by partners or acquirers

when entering a new country. This concept has become the classical basis for accounting for differences in attitudes and behaviours between managers from different countries. Culture refers to values and attitudes: ‘how things ought to be’ (Schein, 1985). But culture, whether national or organizational, is of limited help for international managers: it does not inform about the actual practices at work. When these managers plan to invest and manage operations abroad, they want to understand not only the culture of the country and/or partnering organization but also the managerial practices implemented abroad. Research in this direction has been rare. Consequently, our study seeks for exploring these practices in the Russian car industry context. For that purpose, we reintroduced an old concept, called ‘administrative heritage’, and conducted interviews with 16 Russian managers involved in the car industry.

Our findings show that the implementation of Western managerial practices in Russia needs to rely on hybridization, a process by which new practices are introduced, but with a visible ‘Russian difference’. Such a hybridization requires foreign managers to work and network locally for the implantation of the practices.

## **Administrative Heritage**

The members of a firm develop over time a set of shared beliefs as to ‘how things ought to be done’ (Bjur & Zomorroddian, 1986). These shared beliefs legitimize managerial practices, like the ways of organizing and controlling that constitute the firm administrative heritage (Bartlett & Ghoshal, 1995). This administrative heritage partially reflects the culture and institutional routines of the company’s country of origin. For example, Calori, Lubatkin, Very, and Veiga (1997) show that a nation’s educational system may shape the beliefs about ‘how things ought to be done’, like managerial preferences toward centralization or decentralization in decision-making.

A firm’s administrative heritage is also characterized by path dependency. Bartlett and Ghoshal (1995, p. 195) state that companies are ‘captives of their past’, and any organizational change is influenced by the company history. Consequently, a firm’s administrative heritage may act as a constraint on the strategic choices that firms make about how to compete (Bartlett & Ghoshal, 1989; Collis, 1991).

A few researchers have explored the administrative heritage of organizations. Comparing managerial practices of French and British companies, Calori et al. (1997) and Lubatkin, Calori, Very, and Veiga (1998) show how a nationally bound administrative heritage influence the integration practices of acquirers from each country. Zalan and Lewis (2006) have studied the international development of Australian firms and confirm the proposition of Bartlett and Ghoshal (1995): internationalization success is partially explained by company administrative heritage developed in the domestic market because this heritage restrains strategic choices. Dixon and Day (2007) identify critical success factors for the management of change in transition economies. Their analysis of four

longitudinal case studies of Russian oil companies after 1995 highlights the importance of a Russian-based administrative heritage as an initial obstacle to change. They find that organizational change occurs when the top management team brings radically different mindsets than the traditional Russian ones, when it has an entrepreneurial orientation and a capability to monitor change.

This bunch of research helps us elaborate a framework for answering our research question: how should foreigners manage a partnership or an acquisition in Russia? First, the study by [Dixon and Day \(2007\)](#) indicates the pertinence of using the ‘administrative heritage’ approach for examining managerial practices in the Russian context: the inheritance from the planned economy seems to slow down or impede organizational change processes. It means that good managerial practices by foreigners in Russia should consider a Russian-bound administrative heritage.

The other studies ([Calori et al., 1997](#); [Lubatkin et al., 1998](#); [Zalan & Lewis, 2006](#)) show that internationalization, and particularly cross-border partnerships, represents a particularly relevant phenomenon for examining the role played by administrative heritage in the strategic development of companies. [Lubatkin et al. \(1998\)](#) explain that, in the context of cross-border acquisitions, the members of the acquired company are confronted with a new set of practices that increases their awareness of their own practices. When foreign firms invest in Russia through partnerships, their managerial practices represent their beliefs about ‘how things ought to be done’ in partnerships. Any misalignment between partner’s managerial practices is likely to exacerbate the consciousness of each one about its company administrative heritage. Consequently, in the course of acquisitions or partnerships, a firm administrative heritage should be best captured by surveying the perceptions of its own members. Similar arguments have been developed for studying the organizational culture in the context of acquisitions ([Sales & Mirvis, 1984](#)).

## Russian Work Practices

Russia was marked in the early 90’s by the brutal passage from a centrally planned economy to capitalism. The Soviet system has been described as highly bureaucratic and centralized, emphasizing top-down management. At the centre of the organization, we found the various ministers relayed at local level by the enterprises’ directors who concentrated a lot of power in their hands, issuing orders and bearing responsibility for the firms’ results ([Ivancevitch et al., 1992](#)). This centralized and autocratic system generated the emergence of several attitudes, such as the fear to talk openly or the preference given to information received from informal channels to those of any official media ([Alas & Vadi, 2004](#)). The socialist system was the cumulation of a century-long history of forces which discouraged participative decision-making and risk-taking ([Ivancevitch et al., 1992](#)).

Another important characteristic of the Soviet society was the existence of a vast and ramified system of privileges for the members of the *nomenklatura* which

split into two major segments after the fall of socialism: the political elite and the economic elite (Kryshtanovskaia, 1996). The latter group derives its legitimacy from the amount of money they have and the way they spend it. In any case, the reproduction of elites has been much stronger than in countries such as Poland and Hungary (Hanley, Yershova, & Anderson, 1995). At operating level, the former system disregarded the interest of customers, with consequently little concern for quality issues and scarce culture of performance (Grachev, 2009, p. 5).

The transition from a central planned economy to a market economy was considered a great challenge because it required changing attitudes and values (Alas & Vadi, 2004). While transferring technologies and modifying structures is feasible without too many problems, this is far from being the case for culturally embedded practices (Clark & Geppert, 2002; Soulsby & Clark, 2012). This phenomenon, which has been recognized and monitored in many postsocialist countries, has apparently been slower in Russia, where the changes undertaken have not been able to generate enough 'new cultural patterns in business relations' (Kuznetsov & Kuznetsova, 2005, p. 30).

Scholars recognize that the different and numerous reforms implemented by the Russian government have failed to bring Russian capitalism into the modern age (Kuznetsov & Kuznetsova, 2003), speaking even in some cases of the failure of the country modernization (Inozemtsev, 2016). The institution deficiency has led to the surge of corruption and poor contract enforcement (Blanchard & Kremer, 1997). Many Russian economic agents' behaviours, repeatedly considered senseless, are often rational reactions in front of the uncertainty and the challenge caused by institutional distortions.

The weakness of local institutions has led experts to use such phrases as 'institutional void' (Puffer, McCarthy, & Boisot, 2009) or 'path dependency' (Schwartz & McCann, 2007). This explains in large part the citizens' lack of trust for everything done by the government (Shlapentokh, 2006), which conducts actors to rely more on the cognitive aspects resulting from the combination of values, beliefs and local customs (Puffer & McCarthy, 2007). The absence of strong institutions has led to an increase of games of powers, which have become essential to survive and prosper in a situation perceived as instable and opaque. Consequently, business actors try to take control of situations whenever they feel endangered, prioritizing interpersonal trust over rules and norms (Thelen & Zhuplev, 2002).

The Russian contemporary civil society is associated with different attributes compared to what we know in Western countries: an informal network with social and cultural capital, strong ties among actors, a diffuse focus on the collective actions, particularized social capital and a weak state. In this model, citizens are marginalized and characterized by politicians as either a receiver of benefits or a degraded mass (Urban, 2010).

The long Soviet history had another consequence in the fact that it cuts off the country from a large part of the world. As the nerve centre of the Socialist World, Russia created and developed its own approach of business practices, using many inputs from the West that it highly transformed before processing. Remains of this period can be found in the persistence of the notion of the 'near abroad'