Operating in the Russian logistics market

Master thesis

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Preface

After having worked for the international department of the Tax and Customs Administration of the Netherlands, receiving delegations from a range of countries and sharing Dutch experiences with other customs administrations, I moved to Russia five years ago. Part of my work as a contractor at the Netherlands Embassy in Moscow was interacting with Dutch companies working on the Russian market. Some companies were already present there for a long time, some would enter the market and leave again.

A certain pattern became apparent to me: the companies that were successfully operating on the Russian market had an important insight. They perceived the cultural differences between the Netherlands and Russia. What I noticed is that the cultural differences between a Russian and a Dutch society were not obvious to every Dutch company entering the Russian market. All too often companies would seem to disregard them and try to conquer the Russian market only with their own, Dutch values.

As a Ukrainian by birth, Russian culture was close to me because of the common heritage. I speak Russian, which made my life and work in Russia easier. I saw foreign companies struggling with understanding how the Russian market functions and why their Russian partners behaved the way they did. I saw foreign managers failing to understand the motives of their local staff. Most of the misunderstandings could have been prevented if the importance of cultural insight was clear to the companies before they entered Russia.

As an ‘insider’ of the (post-)Soviet world I could, from my own experience, intuitively explain why these problems occurred. It wasn't until I started the Executive Master 'Customs and Supply Chain Compliance' at the Rotterdam School of Management (RSM) that the opportunity presented itself to take a more in-depth look at the phenomenon of the cultural dimension of logistics. I wanted to demonstrate that it takes more than just a sound business strategy and capital to start a business abroad. With the example of Russia I wanted to raise awareness about the importance of the cultural aspect in operating in a foreign market.

In order to conduct an academic research I built my theory on the literature available on cultural theories in general and in logistics in particular. While analyzing these theories a question of importance of cultural aspect in logistics process arose. To see in practice whether the cultural factor has a determining role in successful operations of a foreign company in Russia, I needed a reference case which could reflect on that. A Dutch company operating on the Russian market was kind enough to provide me the required insight to build a case study. Through the research I conducted I hope to raise awareness of the importance of further research into the cultural aspects of doing business in foreign markets, specifically the Russian, which is most decidedly "not for beginners", as the title suggests.

My research work proceeded under the supervision by Prof. dr. A.W. Veenstra and dr. F. Jaspers at Erasmus University Rotterdam. I am thankful to both for their supervision and constructive advice offered to me.

In the course of my research, I was given great continued cooperation by Company A (it was agreed that for purposes of confidentiality the full name would not be mentioned in the publicly available version of this thesis). Company A is a Dutch logistic service provider operating in Russia.
And last but not least, I am ever grateful to my husband Robbert, who supported me throughout the whole process and encouraged me when I encountered difficulty to continue my work.

Anastasia Kondrashova

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Executive summary

In this thesis we have looked into the differences in logistics paradigms of the Netherlands and Russia. We have looked at the way the specific geographic, historical and above all cultural factors are influencing the way logistics operations are carried out by non-Russian companies. Therefore, the main research question of this thesis is: “What determines the success of a western logistics company in Russia?”

In order to better structure the research the following sub-questions were asked:

1. How easy is it really to access the Russian logistics market as a foreign company?
2. Would bringing in the “western” knowledge be enough to be successful in Russia or should the company be aware of the cultural issues and be willing to adapt in Russia?
3. “When in Rome, do as Romans do”, says an old proverb. Would this be true for the logistics market in Russia?
4. How different are the logistics paradigms of the Western world and Russia?
   What are the differences?
5. Do the same logistics principles apply in Russia as in Western Europe?

Considering the questions raised above, the hypothesis of this research was formulated as follows: “The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business.”

This research consisted of the following elements:

1. Literature review

We have conducted a literature research looking into the role of culture and cultural differences in logistics. Logistics is generally perceived from the economic point of view, leaving out the cultural aspect. There are not so many studies bringing cultural aspects of logistics into the light. Luo et al (2001) was one of the first researchers who suggested that the cultural aspect is as important as economic or infrastructural aspects of logistics. Shinohara (2006) backs up the theory of Luo (2001) and underlines the importance of the cultural study in cross-border business. Darkow et al (2015) underlines cultural differences as one of the potential barriers which foreign companies encounter while operating in Russia. Relying on the researched literature, cultural aspects of logistics should not be ignored when entering a foreign market.

Further following the theory of Hofstede et al (2010) we compared the Dutch and Russian cultures identifying their differences following the six cultural factors: power distance, level of individualism, masculinity, uncertainty avoidance, long term orientation and indulgence. Understanding these differences is crucial to the successful operations in Russia. Logistic practices and supply chain management are based on the theories that emerged within a long period of time. By understanding the notion of logistics, cross-border logistics we can dissect the meaning of cross-cultural logistics. The importance of cultural aspect in logistics emerges through time and the growing need for economies to expend. Through analyzing the different theories and approaches to logistics we hope to see patterns which would underline the importance of the cultural aspect to it. Furthermore we look into the aspects of Western versus Russian logistics and the role of culture and cultural differences in it.
2. Theoretical analysis

Based on literature review we have identified the potentially different aspects of logistics process which between the Western and Russian logistics paradigms. These aspects will be looked into from three different perspectives:

- economy related, looking into how both concepts differ from each other in terms of i.e. customs, compliance, legislation and governance
- infrastructure related, zooming in on i.e. transportation, regionalization and resource allocation
- culture related, analyzing the cultural differences, work ethics etcetera between the two countries

3. Empirical study

The formulated research hypothesis was tested through a single case study of a Dutch LSP functioning in Russia. This LSP, being part of a larger global network, originating in the Netherlands has been successfully functioning in the Russian market for 26 years.

The logistics paradigms of western countries (such as the Netherlands) and Russia appear to be quite different. Though logistic functions are the same, operational targets are the same as well as the expected outcomes, the reality of Russian logistics is slightly different from the western one.

The government system goes back to the Soviet times with its distrust to companies. For example the profit oriented approach of customs authorities is an absolute product of the Soviet heritage. FTS (Russian Customs Service) - still being one of the biggest providers for the state treasury and not willing to part with its past for the sake of trade facilitation is the living proof of that heritage.

Russian infrastructure, for the most part of it also inherited from the Soviet Union is in a generally poor state requiring large investments. Climate specifics of Russia makes the majority of its roads inaccessible in winter. These aspects make logistics movements mostly in the Asian (i.e. Siberian and Far East) part of Russia difficult. This requires the western company to have understanding of the possibilities and a sound image of its own capabilities.

Next to these complications, the cultural aspects of logistics operations make it difficult to access the Russian market and to operate in it. Work productivity in Russia is lower than in the Netherlands, the vertical management style is historically being appreciated more than the horizontal one. A Russian employee would prefer not to take responsibility for his work and would expect to receive orders from the boss rather than draw a course of actions himself.

Compliance is another big issue on the Russian market. Considering a high corruption rate throughout the country and all layers of economy, it is a challenge for a foreign company to remain compliant and not to engage in corruption. A company needs to have strict rules for non-tolerating of corruption and to be able to enforce them. It is important not to confuse corruption with maintaining a relationship.

4. Conclusions

Based on the literature research and analyzed data of the case study the conclusion on the plausibility of the hypothesis was established. The performance of a western company in Russia is dictated by the understanding of Russia and the cultural specifics of this market. As a result, the hypothesis of the research “The key to successful operating in Russia as a western European LSP is to adapt to the local
way of doing business” is true to the extent that it does not interfere with company’s compliance rules. By the local way of doing business one should understand the set of rules (official and unofficial) that are commonly accepted in the country and cultural aspects to be respected. Not understanding and not respecting the cultural codes will eventually lead to disruption of operations and ultimately to the termination of operation. Part of the cultural codes are, especially in the case of Russia, command of the language, knowledge of the way of expressing oneself and work ethics. The historical context should not be disregarded.
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1. Introduction

According to the World Trade Organization Ranking, Russia occupied 15th place in Export Merchandise and 23rd place in Import Merchandise (including the intra-EU trade) in 2015. In the past few decades Russia became an attractive market for European companies. Its market size, high profit margins along with underdeveloped supply chain knowledge attract a wide range of European companies. But to be sure, Russia is not an easy market for companies in any field, from production to logistics.

Though there have been a good number of European companies expanding their businesses into Eastern Europe and beyond, many eventually could not make it in Russia due to a variety of reasons. Companies often lament the work ethics in Russia, the high corruption rate, bureaucracy and lack of adequate infrastructure. Probably the most frequent reasons given for companies’ failure to operate in a foreign market successfully are “not being able to adopt to the local rules, regulations and traditions” and “being misunderstood by the local market”. These complains are of course based on actual experience of companies which often lead them to withdraw their business from Russia. However some stay and blossom, where others pack up and leave. No one likes to admit defeat. These reasons show that companies often do not understand the market they enter and / or do not wish to adjust to its rules. Probably due to all these potential difficulties Russia is still being seen by the foreign companies as a challenge in terms of start business there and remain in business there.

So what does a western company willing to start a business in Russia need to bear in mind about Russian market if it wants to succeed there?

Governments try to offer different kinds of support to the companies willing to do business in Russia. In the Netherlands the Netherlands Enterprise Agency (RVO) is responsible for providing all kinds of information and support to the companies considering entering the Russian market. That support varies from publishing all kinds of information about doing business in Russia to searching for potential business partners in Russia for the Dutch entrepreneurs. However willing to help the companies, RVO can only provide them with basic information on the Russian legislation and culture, this being insufficient to fully understand what one gets into and what to expect next.

In this thesis we will look into what determines the successful operations of a Western company on the Russian market. As the Russian market is extremely large, we will limit our research to western logistic service providers (hereinafter LSP) willing to operate in Russia.

After a research of the literature available in this field, we will formulate a hypothesis which then will be tested on a single case study of a Dutch logistic service provider that has been operating in Russia for 26 years.

With this research I would like to enlarge the existing knowledge base on cross-cultural logistics and cross-border operations which would help and stimulate western companies to access the Russian market more consciously, thereby -hopefully- increasing their success rate.
2. Problem definition

Efficient and effective logistics management has been the topic of academic research worldwide. However, the solutions offered often focus on the economic side of the phenomenon. The economic impact of changes often dictates that the solution should lay somewhere between optimizing the cost-benefit ratio and modernizing the tools the companies operate with. However, the cultural aspect is often being overlooked. It’s perfectly understandable: if the company is willing to enter a new market, expand its share in a market or simply prevent its exit from a market, often an “optimal” solution will be found by the business development experts.

Luo, Van Hoek, Roos (2001) argued that the cultural dimension of logistics should not be underestimated. Shinohara (2006) suggested that the cross-cultural collaboration between people in logistics is the key to the establishment of the universal logistic management paradigm. But how often is the cultural or inter-cultural aspect actually taken into account while engaging in cross-border logistics?

When considering entering a foreign market a company is likely to conduct a research about the market they are planning to enter. Nevertheless companies often fail abroad. It’s possible to suggest that there is a linear dependence between the success rate of the company and the difference between the home market and the foreign market of the company. In other words, the further the company wants to divert from its culture, the lower its success rate could be.

Many western logistics companies have regarded Russia as an attractive market, at least from the beginning of this century to the recent economic downturn, Western sanctions and Russian countersanctions. Risks may be high but so are the rewards. Some companies will, implicitly or explicitly, have drafted a rudimentary SWOT analysis, which might look something like this:

**Figure 1**

**SWOT analysis of basic information about Russia**

- **Strengths**
  - Russia is a huge country with abundant natural resources AND a sizeable home market of 140 million people.
  - Russia is an important producer of oil and gas, exporting to both Europe and Asia.
  - Russia has a multimodal distribution system consisting of pipelines, rail, road and sea.

- **Weaknesses**
  - The past decades have seen few investments in transport infrastructure.
  - Corruption is a significant problem in Russian, especially in cross-border traffic.
  - Transition to a more market-focused economy has been incomplete.
  - English and/or other languages than Russian are not widely spoken.

- **Opportunities**
  - The development of land-based transport corridors linking Europe and Asia through Russia (silk route, OBOR) offer an alternative to the existing sea route.
  - New sea routes are becoming possible because of the melting of polar ice caps.
  - Russia became a WTO member in 2012, which might bring the country more in line with international legal practice.

- **Threats**
  - Russia is too dependent on the oil and gas sector. A decline in this sector would negatively impact the country's freight transport operators.
  - Slow growth in China will affect rail transit to that country.
  - Western sanctions will hurt the Russian economy, adding to a weak ruble and causing delays in infrastructure investment.
2.1. Research question
The objective of this thesis is to look into the differences between the Russian and western logistics paradigms, in order to understand how a western logistics company can successfully do business in Russia. Therefore, the main research question of this thesis is:

“What determines the success of a western logistics company in Russia?”

Success could be quite an ambiguous notion. By success in this thesis we understand a position a western company should gain on the Russian market which would be (financially) beneficial to its operations and would lead to continuation of such operations rather than to its withdrawal from the Russian market.

Western companies entering the Russian market generally can be divided into TWO groups: those who realize that they are entering a foreign market with its own characteristics and habits and those who think they can keep their operations in the new market the same as in their home market.

In order to structure the research the following sub-questions are asked:

1. How easy is it really to access the Russian logistics market as a foreign company?
2. Would bringing in the “western” knowledge be enough to be successful in Russia or should the company be aware of the cultural issues and be willing to adapt in Russia?
3. “When in Rome, do as the Romans do”, says an old proverb. Would this be true for the logistics market in Russia?
4. How different are the logistics paradigms of the Western world and Russia? What are the differences?
5. Do the same logistics principles apply in Russia as in Western Europe?

Considering the questions raised above, the hypothesis of this research can be formulated as:

“The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business”

2.2. Research objective
Following the research question, the paper will focus on the factors determining successful operation of a western logistics service provider in Russia. The thesis will research the ways to achieve logistics effectiveness in different environments: Europe and Russia. Both logistics concepts will be analyzed in interdisciplinary perspective. The goal of this thesis is to analyze the role of cultural aspects in defining successful operations of Western LSP companies in the Russian marketplace.

2.3. Research methodology
1) Literature review
Logistic practices and supply chain management are based on long standing theories. By understanding the notion of cross-border logistics we can dissect the meaning of cross-cultural logistics. Through analyzing the different theories and approaches to logistics we hope to see patterns which would underline the importance of the cultural aspect. Furthermore we look into the aspects of Western versus Russian logistics and the role of culture and cultural differences.
Through a wide range of literature different aspects of the topic will be addressed. Works from academia, articles and reports from NGOs as well as material from consultancies will be used. By making the maximum use of all available sources, including Russian-language, in this phase, we hope to be able to describe the bigger picture.

2) Theoretical analysis

Based on literature review we will identify the potentially different aspects of logistics process which between the Western and Russian logistics paradigms. These aspects will be looked into from three different perspectives:

- economy related, looking into how both concepts differ from each other in terms of i.e. customs, compliance, legislation and governance
- infrastructure related, zooming in on i.e. transportation, regionalization and resource allocation
- culture related, analyzing the cultural differences, work ethics etcetera between the two countries

The differences in logistics paradigms between Europe and Russia are central to this research. However, there is quite a wide range of logistics practices and therefore differences within Europe, based on various factors such as level of logistics performance, transport networks, work ethics etc. Therefore for the sake of reducing the research to the manageable proportions, the European part will be limited to the Netherlands. This also considering the fact that the Netherlands occupies a leading position in logistics within Europe due to a number of factors i.e. its geographical position, the level of logistics maturation and wide transport networks.

3) Empirical study

For this thesis, a case study approach was chosen. This was done for several reasons. Taking into account the research methodology proposed by Yin (2003) a case study methodology aligns with our exploratory research objectives. Furthermore, case studies are suggested for analysis of complex phenomena. As our research is focused on imbedding cultural aspects into other aspects of logistics and thus can be classified as societal theory building, case study would be the best option to test the theory. And last but not least case study is advised for exploratory research of not yet well-studied phenomena.

A single case study method has been chosen for this thesis. According to Yin (2003) a single study may be chosen when it represents a “revelatory case”. This means that when a researcher has the opportunity to analyze a phenomenon with the depth or insights that was not done before the single case study can be representative to the research.

According to Voss et al (2002) the fewer the number of case studies, the greater the opportunity for in-depth analysis. The single case study reveals an opportunity to study several contexts within one case. Despite the limitations of such approach, due to the limited generalizability and potential risk of misinterpreting available information, a single case study, when representing data over a long period of time, can give an insight that a number of case studies over a short period of time would not give.

A single exploratory case study used in this thesis is supposed to test the theory formulated after having conducted the literature research. In this thesis a single case study is used because of a high representability of the case to the theory to be explored.
The formulated research hypothesis is tested through a single case study of a Dutch LSP functioning in Russia. This LSP, being part of a larger global network, originating in the Netherlands has been successfully functioning in the Russian market for a longer period of time. Their modus operandi in Russia has let them survive multiple crises in Russia and to remain successful on logistics market of Russia.

As the author understands both Dutch and Russian cultures and languages, it gives the possibility to see and analyze the processes from a closer perspective.

The survey in the form of questionnaire is structured in a specific way to analyze the strategies of the company, its understanding of the rules of engagement for doing business in Russia and its internal policies. These questions are meant to test the hypothesis.

Within the company both Dutch director and Russian employee were questioned in order to get the bigger picture from both cultures.

4) Conclusions

Based on the literature research and analyzed data of the case study the conclusion on the plausibility of the hypothesis is made. By answering the research question and sub-questions we formulate recommendations for further studies on this topic.
3. Literature review

3.1. Introduction
Logistics may be seen as the physical part of trade. It covers all stages of the supply chain, from sourcing raw materials, through the production process and subsequent transport, warehousing and distribution right down to the end customer. With logistics’ growing importance in countries’ economies a strictly technical approach to it is no longer sufficient as such approach no longer can reflect all the aspects of the phenomenon. With logistics having gone global, it should be seen as a much more complex phenomenon.

The role of culture and cultural differences in management, marketing and other sciences has been studied for almost half a century. However, the role of culture and cultural differences in logistics has only been recognized for a few decades. It took the researchers quite some time to realize that logistic operations can be more successful when understanding the cultural background behind them.

The purpose of this chapter is to give an overview of the cultural theories and cross-cultural logistics theories. By analyzing these theories we want to see how the notion of importance of cultural aspects in logistics has evolved. We look at different researches of cross-cultural logistics and compare their findings. As a conclusion an analysis of all the researched theories is proposed to see the common patterns.

3.2. Literature review
The awareness of importance of understanding cultural differences has been growing together with the expansion of international trade. There are different cultural theories known in the academic world. Up till today the most well-known and recognized culture theory is that of Geert Hofstede. Having conducted extensive research into national culture as well as organizational culture, Hofstede has come up with the following classifications.

Hofstede defines national culture as “the collective programming of the mind distinguishing the members of one group or category of people from others” (Hofstede, Hofstede, Minkov, 2010). In his earlier studies he proposed four universal dimensions for national culture (individualism, power distance, uncertainty avoidance, and masculinity) and later adds a fifth value (long-term orientation) and a sixth (indulgence). The country’s culture is therefore assessed through the prism of these six dimensions. Adapting the same criteria to different countries one can dissect the differences and look for solutions.

Hofstede defines organizational culture as “the way in which members of an organization relate to each other, their work and the outside world in comparison to other organizations. It can enable or hinder an organization’s strategy” (Hofstede et al, 2010). There are six autonomous dimensions to the organizational culture: organizational effectiveness, customer orientation, control, focus, approachability and management philosophy; and two semi-autonomous dimensions, namely degree of acceptance of leadership style and degree of identification with one’s organization.

The interdependency of both national and organization is obvious as there is no understanding the organizational culture without understanding the national culture. Therefore getting to know the national culture of the country where company’s business is being situated is vital to its success.
When talking about the importance of the cross-cultural understanding, it’s worth mentioning that in the area of logistics the cross-cultural aspect has only been studied for over a decade. Up till that moment the importance of the cultural side to logistics was overruled by economic aspects. Luo et al. (2001) first described the importance of research into the phenomenon of cross-cultural logistics putting it next to the economic and political aspects. Derived from empirical cross-cultural research Luo concluded that the most researches in cross-cultural logistics focus on one country or a number of countries sharing language, culture or being in any sort of economic union. The lack of a knowledge base for a cross-cultural logistics could therefore possibly be explained by the difficulties connected with conducting a cross-cultural logistics research in general (Clinton, Calantone, 1996) or involving a non-western developed country (WDC) in particular (Razzaque, 1997). Logically the countries falling outside of the above mentioned criteria would need a more thorough approach.

Considering the limitations of the cross-cultural logistics research Luo (2001) proposes three factors influencing special characteristics in logistics of non-western developed countries:

1. Logistics is infrastructure related. The state of both “hard” and “soft” infrastructures in the country determine the level of logistics performance in the country therefore being a variable in shaping logistics difference between western and non-western countries.
2. Logistics is economic system related. Luo et al (2001) put Russia into the non-Western countries group together with China, Japan and others non-western countries. Similar to China, Russian logistics and supply chains were strongly influenced by the state in the era of planned economy. Now both countries’ logistic systems are in transition to become independent from the central authority. Apart from a common (communistic) past Russia and China also have language and culture that are quite different from Western Europe. Therefore the assumption can be made that the risks for a Western European logistics company operating in China might be comparable to Russia, at least to a certain extend.
3. Logistics is culture-related. If we extrapolate Hofstede’s theory of cultural differences onto logistics like Aquilon (1997) did in his case study on Japan, the importance of understanding the cultural differences and adjusting company’s practices according to the culture of the country may prove to be beneficiary to the company’s success in that market. When zooming in on this particular factor and taking into account the six cultural dimensions proposed by Hofstede applied to the Russian market, we can focus on the social-cultural implications of logistics in Russia.

Shinohara (2006) argues that “The key to the establishment of a universally shared paradigm of logistics management lies in the improvement of cross-cultural collaboration of the people in the supply chain”. He investigates whether the differences in logistics paradigms of different countries (in his case the Netherlands and Japan) can be attributed to the different stages of logistics development of the countries or to the specific institutional and cultural environment in those countries. By looking into the history of logistics, supply chain management and different approaches to them Shinohara positions the intercultural aspects of logistics and supply management as an important part of institutional economics. He adds though that attention to Human Resource Management (HRM) and cultural differences is still not the first priority of the companies most of the time focusing primarily on economic goals and business model of organization rather than behavioral part. Shinohara underlines the importance of studying cultural aspects of logistics and their influence on the effectiveness of supply chain functionality. Adapting the four steps Institutional Framework of Business Logistics of Williamson
(1998), Shinohara describes the influence of the social and cultural factors on the interpretation and functioning of all the four steps.

<table>
<thead>
<tr>
<th>Level</th>
<th>Institutional framework of business logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>Embeddedness</td>
</tr>
<tr>
<td></td>
<td>Values/Utility, Business Cultures/Customs, Human Relationship, Trust, Reliability, Co-Working Spirit, Service Concept</td>
</tr>
<tr>
<td>Level 2</td>
<td>Institutional Environment</td>
</tr>
<tr>
<td></td>
<td>Policy (Government/EU), Infrastructure, Laws, Industrial, Relations, Labour Market, Management Theories</td>
</tr>
<tr>
<td>Level 3</td>
<td>Governance</td>
</tr>
<tr>
<td></td>
<td>Contracts, Corporate Rules, Management Missions, Strategies, Business Plans, Training Scheme, Tacit Agreements/Understanding, Information, IT Systems</td>
</tr>
<tr>
<td>Level 4</td>
<td>Resource Allocation &amp; Employment</td>
</tr>
</tbody>
</table>

Source: Shinohara 2006:123, Table 6-2

Several researchers have focused on the way “western” and “eastern” best practices interact in global supply chains. Straube, Durach, Nitsche (2016) investigated supply chain disruption risks on the Chinese market for German companies. In their survey of 42 logistic companies operating in China addressed the issue of general risk perception and risk mitigation. The most common risks identified by the companies interviewed were that can be applicable to our research are:

- **Cultural differences**

  May be seen as differences in behavior, attitude of people and values. The language barrier contributes significantly to this risk but is certainly not the only problem. People from different cultures often have stereotyped ideas about each other. Whether or not these are conceptions or not is not important because at key moments both parties will not understand each other correctly. Cultural differences often lead to distrust within the company which influences its productivity. Therefore in order to mitigate the risk of cultural differences influencing the business results, both parties need to be aware of such differences and be willing to overcome them, be willing to invest into relationship based on mutual understanding.

- **Legal system ambiguity**

  This explains the uncertainty about the interpretation, execution and enforcement of laws and regulations, to the extent they have relevance for the supply chain. Many states have legal provisions that overlap each other or might even be in contradiction. Even if we assume that the (western) company wants to be compliant, this might not be that easy to accomplish. Examples from the interviewed companies showed that they had to come up with a way of gaining the information about the legislation changes and to implement it in their companies which required deeper (local) knowledge of the legislation and the reasons for its implementation as well as consequences it would have on the company. This insight was however not possible without knowing of Chinese cultural codes.
- **Transport infrastructure**

Can be defined as the availability and condition of both the transport infrastructure and the means of transportation used to connect logistics centers. If the infrastructure and/or rolling stock (although this term is not apt for air cargo operations) are of insufficient quality, this will cause considerable problems for optimal logistics. For example, companies might have to keep safety stock if replenishment is not timely or cargo is lost on the way. In concrete examples from China some patterns in risk mitigation emerged, namely that the German companies would only deliver to the clients in the area they knew had good infrastructure or starting to invest in own infrastructure (e.g. investing in hubs).

- **Customs compliance**

This could be seen as a subcategory for legal uncertainty but the impact of not complying is generally seen to be far worse than any other enforcement issue. Problems with customs authorities will often cause costly delays. The effect is worsened if customs behavior cannot be predicted because is it subject to frequent change and is perceived not to be transparent. In the case of China the interviewed companies have learned that investing in (long term) relationship with customs can be helpful. Also using a customs broker who already has his relationship with customs, to deal with your company’s customs issues can be fruitful as well as invoking your family’s connections to advocate for your company. These solutions, however seeming manipulating, should not be confused with the last risk mentioned, namely corruption.

- **Corruption**

Interestingly this is termed ‘malfeasance’ by Straube et al (2016). This is a willful and intentional action that injures a party but it could also be used to soften or blur the term corruption (such as the different connotation of ‘facilitation payment’ versus ‘bribe’). Regardless of how it is called, the phenomenon is a huge problem for companies, especially if they have a corporate policy not to involve themselves with active and passive corruption. In order to contain any possibility of corruption evolving in your company’s practices, clear anti-corruption strategy should be developed within the company and periodical audits should be in place.

Although Straube et al (2016) researched China and Chinese market, these categories certainly seem to apply to Russia. When considering cultural differences, Russia has European traits but is also part Asian. A distinct difference is the system of laws and regulations: “In Russia, the legal climate remains complex and ambiguous, with a rigid approach by state authorities and a system based on a number of complex mandatory rules.”

Darkow, Lorentz, Weidmann (2015) conducted a research among the foreign LSP’s operating in Russia and concluded that their operations in Russia are far from easy. The 24 foreign LSP’s that were interviewed indicated that their operations are influenced the most by:

- **Rules and regulations**

Many laws are ambiguous (open for interpretation and therefore susceptible for subjective judgement). Political institutions still have significant influence on LSP’s operations. State authorities do not always

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1 [http://www.lexology.com/library/detail.aspx?g=18a47c7a-726a-4f77-8a2c-ce9e6f92a933](http://www.lexology.com/library/detail.aspx?g=18a47c7a-726a-4f77-8a2c-ce9e6f92a933).
accept e-documentation. The main authorities directly influencing the work of LSP’s in Russia are Federal tax and customs authorities. These authorities are highly politicized and have very large powers to enforce their decisions. Another disturbing issue was fluctuating level of law enforcement, resulting in competition disturbance. As a result foreign LSP’s admitted to have hired local legal staff and a much larger number of customs experts than would have been needed in their own country to tackle the above mentioned issues.

- Economic factors

The communist past has had its impact on the market share of the foreign LSP’s as the local clients tended to contract the foreign companies mainly for cross-border operations. For local operations, local companies were used. Also foreign LSP’s could not outdo their local partners in terms of level of customs clearance services. The uncertain legal framework didn’t either support governance of complex logistics arrangements, therefore limiting the application of added value know-how of the foreign LSP’s. As a consequence some LSP’s started adapting and providing different logistics services from the operations in their home country.

As economic activity in Russia is strongly centralized around the large economic hubs (the large cities) most of the LSP’s had to work with a number of subcontractors in order to remain competitive on the market. This instead of acquiring regional local assets. As a conclusion most LSP’s have chosen to acquire relational resources instead of physical resources in the regions. Furthermore rather than investing in multistep distribution systems, they would choose to invest in large centralized distribution facilities in order to ensure direct distribution possibility from large economic hubs.

- Social system and work ethics

The Soviet past still has significant influence on working ethics of local employees. Lingering influence of informal networks also known as blat plays a very important role in success of company’s operations. The interviewed companies have admitted to have worked out their way around blat and adjusted their business model accordingly. In order to ensure the adequate level of loyalty from local staff, LSP’s have invested in recruiting, training and knowledge management of their staff. As for the blat, depending on nature of service of LSP’s some of them have invested in personal relations with their clients.

With logistics and supply chain management going global the intercultural aspect cannot be underestimated or overlooked any more. The competition in logistics services is growing exponentially leaving companies looking for new markets. However, only focusing on economy and infrastructure related logistics will ultimately result in failing of operations. Thus, the cultural aspect should not be ignored.

To summarize this literature research all classifications of risks and barriers used in the theories that were looked into, can ultimately be fit into three dimensions proposed by Luo et al (2001).

In this model the propositions of Luo et al (2001) about logistics being rather economy, infrastructure or culture related taken as a starting canvas for structuring the other researches mentioned above. All these theories focus on cross-border operations, between Western countries and Eastern (Asian) countries. All the risks and barriers encountered by the companies, and LSP’s in particular, can be distributed within the division provided by Luo et al (2001).
### 3.3. Conclusions

Comparing logistics paradigms of different countries is not easy due to very wide list of potential subcategories to be compared as well as a limited amount of research available. The influence of the cultural aspect is difficult to dissect because it takes a deeper knowledge of the countries’ cultures to be able to make the comparison. However, defy it would mean every country acts the same within the same set of circumstances. If it were true, cross-cultural logistics would not be as challenging as it is nowadays.

Within the conducted literature research different logistics paradigms came to light - Chinese, Japanese, Russian – in comparison with the Western paradigm. Although all these countries have different historical and economic background, when comparing them all with the Western paradigm – they all differ from the Western paradigm based on cultural background. They all show cultural traits (sometimes even common ones) which differentiate them from the Western way of doing business. Those traits are deeply rooted in their work ethics and vision of conducting business influencing their economy and society. Without knowing the cultural codes a company from a Western country will not be able to successfully conduct business in those countries. We believe that analyzing the influence of the culture on cooperation and doing business can help understanding the markets better and to ease the entrance to those markets by foreign companies.

In the next chapters we will further research the differences in logistics paradigms of Russia and the Netherlands. In order to answer the research questions of this thesis, we will dissect the differences in logistics as well as in culture. We will analyze how the cultural differences influence the logistics operations of a Dutch LSP in Russia.
4. The Netherlands and logistics

4.1. Introduction

As we have concluded in the literature research logistics has economic, infrastructural and cultural aspects. Although the Netherlands is not the subject of this thesis, the aim of this chapter is to introduce this country and to demonstrate the difference between “western” and “eastern” approaches in the field of logistics. This will enable comparison with Russia in the next chapter.

4.2. Logistics in the Netherlands

An objective way to compare two countries is by using the Logistics Performance Index. In the LPI Global Ranking 2016 the Netherlands is number 4 (of 160), after Germany, Luxemburg and Sweden. In the six subcategories that make up the total score (Customs, Infrastructure, International Shipments, Logistics Competence, Tracking & Tracing and Timeliness) the Netherlands performed best in Customs and worst in Logistics Competence.

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>LPI rank</th>
<th>LPI score</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International</th>
<th>Logistics</th>
<th>Tracking &amp; Tracing</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2016</td>
<td>1</td>
<td>4.23</td>
<td>4.12</td>
<td>4.44</td>
<td>3.86</td>
<td>4.28</td>
<td>4.27</td>
<td>4.45</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2016</td>
<td>2</td>
<td>4.22</td>
<td>3.90</td>
<td>4.24</td>
<td>4.24</td>
<td>4.01</td>
<td>4.12</td>
<td>4.80</td>
</tr>
<tr>
<td>Sweden</td>
<td>2016</td>
<td>3</td>
<td>4.20</td>
<td>3.92</td>
<td>4.27</td>
<td>4.00</td>
<td>4.25</td>
<td>4.38</td>
<td>4.45</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2016</td>
<td>4</td>
<td>4.19</td>
<td>4.12</td>
<td>4.29</td>
<td>3.94</td>
<td>4.22</td>
<td>4.17</td>
<td>4.41</td>
</tr>
<tr>
<td>Russia</td>
<td>2016</td>
<td>99</td>
<td>2.57</td>
<td>2.01</td>
<td>2.43</td>
<td>2.45</td>
<td>2.76</td>
<td>2.62</td>
<td>3.15</td>
</tr>
</tbody>
</table>


The Netherlands has been a trading nation for many centuries. The country has been at the forefront of logistics development and is considered a gateway to Europe. Of all the goods that enter Europe, some 24% pass through the Dutch delta. In 2015, the GDP of the Netherlands was about 670 billion euros, of which some 53 billion euros can be directly attributed to logistics. It is also one the major sources of employment in the Netherlands.

Logistics has been a field in which the Dutch government, individual enterprises, trade organizations, and academia have cooperated closely. Since 2010, logistics is one of the top economic sectors that receive focused attention to promote their growth and success.

The strategic goals that have been formulated by the Topsector Logistics for 2020 are: “The Netherlands has a leading international position in (1) the handling of flows of goods, (2) as supply chain director of (inter)national logistics activities and (3) as a country with an attractive climate for innovation and investment of the entire logistics sector.”

Dutch government is working along with private sector to facilitate economic activity in the country. Its focus on facilitation of logistics process by reducing the administrative burden for companies, simplifying procedures and reducing handling time by digitalizing communication with companies and providing self-assessment possibilities for trusted traders (AEO certification).

The geographical position of the Netherlands has always been very favorable for its economy. The climate is mild and allows for navigation throughout the year. The position of the port of Rotterdam is
strategic for dissemination of goods coming to Europe throughout the continent. The in-land infrastructure is well-developed allowing for all modalities to be fully used. By using intermodality the companies can decrease their lead-times and therefore become more competitive.

The Dutch culture, unlike the Russian culture, which we will talk about in the net chapter, has not suffered any major perturbations in the last century. Being formed by religious background it has developed a strong sense of duty and satisfaction over the years. According to the main principle of “polderen” employees are encouraged to take active part in decision making process. The horizontal line of command gives them the feeling of participation. Responsibility is shared which encourages people to act without being afraid to bare consequences.

Dutch society, like other Northwestern European societies, promotes the importance of individualism, explaining that one’s well-being is important for the well-being of the group. Employees therefore carefully guard their personal boundaries and value their personal time. Work productivity is high in the Netherlands, not in the least due to a sound division of personal and work time.

On the Transparency Corruption Perceptions Index 2016 The Netherlands ranks 8 in a field of 176. Compliance is one of the top priorities within companies. The government enjoys quite high trust rate from the people. According to the 2016 World Justice Project Rule of Law Index that measures how rule of law is experienced by the people worldwide, the Netherlands landed on the 5th place out of 113 countries

Dutch people often perceive themselves as multilingual and internationally minded. They are known for usually speaking several foreign languages. However this is typically not always true, their perception remains unchanged. In conducting business the Dutch are often considered to come across strong, being overly direct and culturally insensitive. This could have something to do with the general Dutch perception that one should remain true to oneself at all times. This notion often makes worlds collide when other cultures with different backgrounds are involved.

4.3. Conclusions

It is fair to state that logistics is not only a vital part of the economy of the Netherlands but also a defining element of the country as such. RVO, the export promotion agency of the Dutch ministry of Economic Affairs, states in a policy paper that the Netherlands is logistics. By it as it may, logistics is extremely important for the Netherlands and is regarded internationally as an area in which the country excels.

Dutch companies often position themselves as multilingual and internationally oriented. This is true to an extent. Abroad Dutch people are often perceived as self-insured and culturally insensitive. In the next chapter we will look into the Russian logistics paradigm, diving into its economic, historical and cultural aspects. By comparing both paradigms we will try to dissect the importance of cultural sensitivity in logistics.

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2 http://www.transparency.org/country/NED.
5. Russia: country snapshot

5.1. Introduction

From the conducted literature research we have drown the conclusion of importance of the cultural factor in logistics. In the previous chapter we have briefly looked into logistics in the Netherlands. We have sketched a profile of the Dutch logistics paradigm from the economical, historical, geographical and cultural perspective. In this chapter we investigate the Russian logistics paradigm. We will look at the factors that defined Russian logistics and access how cultural aspect has influences it. By comparing the Dutch and Russian cases we will draw conclusions on the role of cultural aspects in successful operating on a Russian market as a Dutch company.

5.2. Doing business in Russia

By doing business we understand the concept of conducting one’s economic activity in a country. It includes the company’s core business as well as secondary activities such as bookkeeping, tax and customs affairs, human resource management etc. Doing business in Russia is being referred to by the Dutch government and others as challenging and demanding knowledge of the legal system, economical peculiarities and cultural differences. Companies aspiring to start business in Russia are often advised to research these matters prior to entering this market.

While we agree that learning about the country the company wants to start operating in is essential, the government often does not mention the extent of knowledge needed. Does reading about the legal procedures and learning a few words by heart suffice or does one need to conduct a thorough research of the field and the possibilities for their company?

The Dutch government offers the possibilities of such field research to the companies, with a result of providing the company with potential clients willing to cooperate. Although this service could help the company in the first phase of its existence in Russia, it is not as popular as it probably should be. The fact that it’s a paid service could potentially spook the companies, but the amount to be paid could hardly compete with its importance and potential benefit to the company. Therefore the only reason for it not to be used by the company is the assurance the companies have in their own strength and ultimately success. Of course, there is always some sort of 'beginner's luck' present in any situation, but otherwise this situation is quite serious.

Companies entering a totally new market, with political and economic paradigm and cultural values being very different from the Western European ones, simply do not consider these issues to be vital to their future success. However when looking at such companies and talking to them after a while they confess regretting having overlooked these important issues.

One of the reasons for such behavior, in our opinion, is the information available on Russia as a whole. Often this information lacks context. Another point to take into consideration is that statistical data in Russia can be manipulated and as a result misleading. In order to be able to read Russian statistical data one has to understand the economic, political and cultural background of the country.

For example, the World Bank conducts an annual study of doing business performance of countries. It measures the effort, time and costs of starting a business in 190 countries of the world. In order to make the data obtained comparable throughout the whole population, they claim to use “standardized business that is 100% domestically owned, has start-up capital equivalent to 10 times income per capita,
engages in general industrial or commercial activities and employs between 10 and 50 people one month after the commencement of operations, all of whom are domestic nationals. Starting a business considers two types of local limited liability companies that are identical in all aspects, except that one company is owned by 5 married women and the other by 5 married men. The distance to frontier score for each indicator is the average of the scores obtained for each of the component indicators\(^4\).

In the same disclaimer they state that the data used to compile this study is taken from publicly available data. Looking at the table below, comparing the Doing Business index of the Netherlands to that of Russia one could get an impression that it is almost as easy to open a business in Russia as it is in the Netherlands. However the rules and laws in Russia are especially very well applicable on paper and this is what gives the companies wrong idea about what they are getting into when entering the Russian market.

<table>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>94,15</td>
<td>22</td>
<td>4</td>
<td>4</td>
<td>4,5</td>
<td>4</td>
<td>4</td>
<td>4,5</td>
<td>0</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>93,57</td>
<td>26</td>
<td>3,7</td>
<td>9,8</td>
<td>1</td>
<td>3,7</td>
<td>9,8</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>


The score in Figure 4-2 is based upon the responses of the survey. The respondents were asked to select the five most problematic factors of Doing Business in Russia and to rank them from 1 (most

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problematic) to 5 (least problematic). The top 5 problematic factors in this table are connected with economic and legislative factors. However those are directly followed by the qualified and compliant workforce. Corruption is being seen as the most disturbing factor for doing business in Russia.

As we already mentioned, a foreign company willing to conduct its economic activities in Russia should at least be aware of the economic, legislative and cultural background of Russia. Considering the size of the country and the implications it might have on company’s operations, the geographic awareness is also advisable. In this chapter we will further look into this topics.

5.3. Logistics in Russia

The state of Russian logistics is rather complex. Some parts of the sector still seem to be stuck in Soviet times, whereas others are world class. This is reflected in the 99th place (of 160) Russia has on the LPI Global Ranking of 2016. In the six subcategories that make up the total score (Customs, Infrastructure, International Shipments, Logistics Competence, Tracking & Tracing, and Timeliness) Russia performed best in Timeliness and worst in Customs. This comparison is not as representative as the fact that the values of the Russian LPI components are almost twice as low as their equivalents from the Netherlands.

<table>
<thead>
<tr>
<th>Year</th>
<th>LPI rank</th>
<th>LPI score</th>
<th>Customs</th>
<th>Infrastructure</th>
<th>International shipments</th>
<th>Logistics competence</th>
<th>Tracking &amp; tracing</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2016</td>
<td>99</td>
<td>2.57</td>
<td>2.01</td>
<td>2.43</td>
<td>2.45</td>
<td>2.76</td>
<td>2.62</td>
</tr>
</tbody>
</table>

Logistic providers in Russia face challenges of inadequate infrastructure, administrative barriers, geographic and climate issues and last but not least market specific issues such as particular consumer behavior and general unreliability of logistic networks. This could be aggravated by deficit of properly trained and compliant personnel. The foreign logistic providers operating in Russia face above that all cultural and communicational differences and distribution capacities and general unreliability of logistics operations.

Logistics in Russia, just as every other country’s logistics, has its own specifics, shaped by the economic, historical and cultural dimensions.

5.4. Historical context

Russia has become the largest territorial state on Earth but has itself been invaded by foreign powers on numerous occasions, from the 13th century to the Second World War. Vikings, Mongols, Tatars, Swedes, Lithuanians, Poles, French and Germans have occupied parts of Russia. They have also left their marks culturally and technologically. Russia has a difficult relationship with all things foreign. On the one hand, there has always been fascination with know-how from abroad, on the other hand there is deep-rooted isolationism and sometimes xenophobia.

From the 19th to the revolution of 1917, the economic development of Russia was roughly comparable with that of most European countries (with the exception of frontrunners like Great Britain, France and Germany); next to a well-developed and productive agriculture, industry was on the rise, especially in Moscow, St.-Petersburg and the southern mining area. The revolution largely severed economic relations with the West for about 70 years. The Soviet economic system was based on autarky, public
ownership of means of production, full employment, agricultural collectivization and dual-use industry (i.e. a factory could push out parts for tanks as well as kitchen equipment). Soviet products were basic and robust but also had many deficiencies as a result of a low work ethic. The reasons for this were various. Rather than allowing the market to determine what products were needed, the economy was dictated by four-year plans. As a result of chronic shortages in raw materials, factories used all sorts of (sometimes clandestine) methods to procure them, leaving other companies with sub-standard scraps. As time progressed, the system simply broke down until the Soviet Union finally collapsed in 1991.5

5.5. Geographic challenges

Russia’s geographical challenges cannot be seen as a separate ones, because they are tightly connected to its history. More than 70 years of Soviet legacy and its central planning have left Russia with poor and distorted economic geography. About one in ten Russians still lives and works in locations, which due to their climate and transportation limitations still heavily depend on central government subsidies for food, fuel and transportation.

Being the biggest country in the world with 17,075,200 km² Russia has the population of around 144, 1 million inhabitants (excluding Crimea6). Economic activity in Russia is concentrated within Moscow and Saint Petersburg being the largest and most economically developed cities and other 13 cities with more than 1 million inhabitants. Russia is a vast and relatively isolated country because it is virtually landlocked. Russia has five different types of climates ranging from humid subtropical to polar. The majority of Russia’s territory is steppe and taiga which are for the most part inaccessible to inhabitants. The weather conditions in the most part of Russia are so severe that little to no economic activity can be found there. Despite Russia’s extensive coastline (over 37,000 km), many of the harbors in the north and Far East are frozen in winter. The entire Eurasian landmass, steppe, taiga, tundra and mountains, is frozen during roughly half the year, causing serious damage to the infrastructure.

Despite the size of the country, the road system is relatively badly developed. Large parts of the road system are not hardened making it impossible to reach certain areas. In the Soviet Union roads were one of the least used forms of transportation which was inherited by Russia after the fall of the Union. As car production was limited in the Soviet times, the demand for road construction was small. Most of the roads were concentrated around large cities. Railways were predominant mode of transportation. Large part of the railway system of the Soviet Union was constructed by forced labor (convicts). As such work force was free and there was almost no limitation to it (throughout almost 30 years of repression), the railroad network in the Soviet Union and the part of it inherited by Russia later on was extensive and elaborate. Currently Russia’s transport system is in dire need of modernization, according to OECD7.

5.6. Economic factors

The transition from the old system to a market economy was neither smooth nor seamless. The 1990s were a chaotic and violent era that most Russians look back upon with a mix of disgust and horror (the exception being the oligarchs that, legally or by other means, acquired their wealth during this era). If

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6 Crimea is being recognized by the majority of UN countries as territory of Ukraine, being de facto administered by Russia
we look at factors complicating doing business in Russia, many of the factors either stem from the 1990s
or were not resolved in the decades thereafter.

Russia has a large market to offer due to its territory. Most capital is focused around the large cities.
After the collapse of the Soviet Union the state-driven economy has been replaced (for as far as possible) by a market economy allowing for market competition. At the same time the know-how and service oriented approach were seriously lacking. Ever since its independence Russia was trying to attract foreign companies to invest in Russia, to work there or to share their know-how. Foreign companies were encouraged to enter the Russian market. In the last few years due to the change of political climate Russia has shifted from attracting foreign companies to attracting foreign knowhow that could be used by Russian companies. Russia is in need of innovative technologies. As for service-oriented branches, the situation is slightly different. Foreign, especially Western-European companies, are renowned for their client-oriented and result-oriented working ethics. Up till today there is a niche, which could possibly be filled by the foreign companies.

The Logistics Performance Index (LPI) of the World Bank ranks Russia the 99th in 2016 after being ranked 90th in 2014 and 95th in 2012. Russia’s LPI was measured at 2,58 in 2012, then peaked in 2014 to the level of 2,69 and then decreased again in 2016 to 2,57. Within the Russian LPI the lowest scores were given to the efficiency of clearing process, including customs and the highest scores – to the timeliness of deliveries, the paradox being that the latter in most cases depends on the former.

Again, Russia has inherited an elaborate but aging transport system from the Soviet Union. Large parts of the country are inter-connected by the rail system and air cargo is also well developed. However, road and sea transport are in worse shape. The state of the roads in Russia depends very much on the specific region. Well-developed road hubs are situated around the large and economically important cities in the European part of the country. Inter-city or inter-region connection are possible but often difficult to realize due to the quality of roads and infrastructure. Inter-regional or country-wide transportation is usually only possible for the big logistics providers. Smaller companies simply do not have the means for that and are bound to find sub-contractors for the job. The right choice of modality in case of Russian logistics is of key importance. If an LSP uses concept of intermodality it can significantly decrease transport costs. Lead times remain a great challenge along the way.

If the customs climate in Russia would have to be summarized in fewer than a hundred words it would sound like this: “In Russia there are still non-tariff barriers and a number of technical obstacles to the import of industrial and agricultural products. The system in use in Russia for certifications, standards, customs rules, phyto–medical [sic] controls, registration procedures and license releases is complex, expensive, non-transparent and not in line with international norms on the subject. Norms on certifications are detailed and non-transparent. Self-certification is seldom accepted, whereas certification made by third parties is frequently used and authorizations last a short time.”

Russian customs authorities have been traditionally responsible for earning about 50% of the State annual budget revenue. Russia was largely responsible for the creation of the Eurasian Economic Union (EAEU), together with Belarus and Kazakhstan. Recently Armenia and Kyrgyzstan joined. The EAEU members have duty free flow of goods between them with a single point where duties are paid, namely at the point the goods enter the Union. Most of the goods entering the EAEU however enter through

8 Torbianelli V.A. & Mazzarino M. Optimal Logistics Networks: the Case of Italian Exports to Russia: 927
Belarus by truck, leaving Russia to comply with no-further-duty-paid obligation. Russian customs authorities however see customs supervision not only as a state revenue generator but also as a lever of economic pressure on countries. Russian customs authorities, together with phytosanitary and veterinary services have been playing an important role in using agricultural bans as pressure mechanism on different countries.

But knowing the nature of the customs supervision in Russia cannot guarantee successful cross-border flow of goods without knowing the specific customs procedure of the Customs union. Logistics companies often find complex Russian customs code to be particularly challenging for their operations. It happens that they have to disregard operational efficiency in the customs context due to considerable differences in the actual degree of law enforcement. Good relations (not to be confused with bribing!) with local customs officials and a sound understanding of customs procedures in order to guarantee prompt processing took up a vital role for the case companies. For example, companies often re-route freight to customs terminals with which they already had good experiences instead of directing freight to the nearest customs terminal (Moser et al, 2004).

Apart from risks emanating from government institutions (not in the least customs) and the questionable state of the transport system, there are specific business risks which have to be taken into account. The main one is the fact that Russia still is a very much closed society. Without knowledge of the Russian language and culture a truck driver or logistics specialist will not be able to operate independently. Next is the banking and insurance sector, which, although they operate on the free market, are not always transparent. Although the current situation is far better than the wild 1990s, there are still many bogus companies, which can disappear overnight before the bills are paid.

Apart from monetary and macro-economic factors, the role of the state stands out. Russia was and is a vertically oriented state were government is more important than business. This may have helped economic development in the past but now it is hindering development. According to the 2016 World Justice Project Rule of Law Index that measures how rule of law is experienced by the people worldwide, Russia landed on the 92nd place out of 113 countries.

Bureaucratic complexity and lack of speed often give rise to “facilitation payment”. Corruption in Russia is very widespread in spite of ostentatious efforts of the government to wipe it out. On the Transparency Corruption Perceptions Index 2016 Russia ranks 131 in a field of 176.

5.7. Cultural dimensions

Russian culture as any other culture is a complex phenomenon of behavioral, historical, religious and motivational aspects melted together. Where in the Netherlands the shaping of culture was mostly influenced by religion and gradual opening of the Dutch society to the world, Russian culture was mostly shaped by the regime changes. It’s fair to say that Russian culture can be divided into pre-revolutionary (1917) and post-revolutionary or Soviet. Pre-revolutionary culture could be perceived as class-culture, high class being strongly oriented on Western culture (French in particular) and lower class being highly influenced by the church and varying through time but stably low level of personal freedom.

10 http://www.transparency.org/country/RUS.
Nowadays Russians tend to believe having left Soviet culture behind by having replaced it with a new Russian (traditional) culture. However this could be argued as the first post-Soviet generation, which has just graduated from the University, is still strongly influenced by the Soviet heritage. On every level of society Soviet past has still tremendous influence which surely cannot be disregarded.

Bergelson (2003) describes Russian cultural models (the traditional and the Soviet) and their differences with Western culture. Curious though is that the author draws a line between the Soviet and traditional Russian cultures. Under traditional the author understands a Russian culture that replaced the Soviet one. However the Soviet footprint is still very strong in modern Russia, especially in culture. One of the differences between the Soviet and post-soviet (traditional according to the author) is the denial within the traditional culture of the fact that Soviet culture is still predominant in the society. When reading into the Soviet and traditional cultures one cannot miss that the description of cultural perceptions are the same, often describing different parts of the same phenomenon. Therefore in our opinion a distinction should be made between Western cultural model and Russian cultural model, combining Soviet and traditional cultures.

The categories upon which the differences between Western and Russian cultures are described are Individualism vs collectivism, human interaction, orientation towards action, time orientation, perceiving nature, choice between form and substance, perception of progress, vision of history, relations on the work floor, perceiving of age, money, work, education and moral superiority.

<table>
<thead>
<tr>
<th>Cultural Model</th>
<th>W-culture (Western-oriented)</th>
<th>S-culture (Soviet style)</th>
<th>TR-culture (Traditional Russian)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I/We Orientation</td>
<td>Individual</td>
<td>Group</td>
<td>Group</td>
</tr>
<tr>
<td>Human Relationships</td>
<td>Individual</td>
<td>Ranked</td>
<td>Mutual</td>
</tr>
<tr>
<td>Activity Orientation</td>
<td>Doing</td>
<td>Pretending to be doing</td>
<td>Being</td>
</tr>
<tr>
<td>Time Orientation</td>
<td>Future</td>
<td>Future/Past</td>
<td>Present/Past</td>
</tr>
<tr>
<td>Relation to Nature</td>
<td>Control</td>
<td>Control/Abuse</td>
<td>Yielding, conformity</td>
</tr>
<tr>
<td>Form and Substance</td>
<td>Style is important</td>
<td>Outward form is of major importance</td>
<td>Inner substance is important, outward appearance is deceiving; one needs to look into one’s soul</td>
</tr>
<tr>
<td>Progress</td>
<td>Progress is good</td>
<td>Technical progress is good; social changes are bad</td>
<td>Technical progress is dangerous because it leads to social changes that are bad</td>
</tr>
<tr>
<td>History</td>
<td>History is a linear progression, a development for good</td>
<td>Ideology shapes history</td>
<td>History is a cyclical and controversial phenomenon</td>
</tr>
<tr>
<td>Freedom/Discipline, authority</td>
<td>Rules/laws must be obeyed even if you don’t like it. The less authority interference with people the better</td>
<td>Caution and formal obedience to official authority. No consideration for individual rights. Vertically organized hierarch regarded as most orderly and effective.</td>
<td>Strong suspicion of authority</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Age</td>
<td>Age means higher position in the official ranks; youth cannot be trusted for they have no experience</td>
<td>It is not fashionable and convenient to be old, for old people still live in the Soviet past</td>
<td>There is a big gap between generations; old people must be supported for that they have done for each of us and because they suffered through all the Soviet times</td>
</tr>
<tr>
<td>Money</td>
<td>Brings you everything you want; Money is easy to earn today, but one needs a lot of it to have a decent life style; spending a lot is good; price is regarded as an index of quality</td>
<td>People got spoiled by easy money-making, and those who worked all their life don’t have enough to support their families; those who have money are all criminals</td>
<td>Too bad there is such a dire need for money; the pursuit of money usually spoils</td>
</tr>
<tr>
<td>Work</td>
<td>Workaholics are not very popular in Russia. Still, they report a very high level of work-related stress in the new economy</td>
<td>Work is not even considered a means to an end</td>
<td>A means to an end rather than an end in itself; has no value in itself</td>
</tr>
<tr>
<td>Education</td>
<td>Education is very important, but it must be oriented at getting a well-paying profession, not just knowledge. It is also important that the degree be from a prestigious university</td>
<td>Enjoys respect as a source of discipline and a means to an end, especially to attain skill, money status; affects family prestige</td>
<td>Has even greater spiritual value of one’s true activity. Being educated means being cultured.</td>
</tr>
<tr>
<td>Moral Superiority</td>
<td>There is nothing special about Russians except that they had to survive under hard conditions – both physically, politically and economically, so they now try to catch up with the West</td>
<td>A moral smugness stemming from a conviction that Russian people possess a set of cultural values and conditions that have made them unique</td>
<td></td>
</tr>
</tbody>
</table>


Any culture cannot be properly researched without taking into account the other factors influencing society, such as political, economic etc. A culture can only be used in comparison (Hofstede et al, 2010), as only through understanding the context and being able to point out the differences one can understand the patterns. Looking at the Russian culture in comparison with the Dutch it’s clear that these 2 have different background and therefore react differently to the world.
Russia scoring very high on Power distance index compared to the Netherlands scoring quite low shows how distant the power holders are to the rest of society in Russia compared to the Dutch who perceive their government to be fairly close to them. Considering the size of Russia, the fact that the Russian capital is mostly concentrated in the biggest cities and the Soviet past which drew a very bold line between the people and the government, this score is logical. People tend to distrust the government and its intents towards them. Extrapolated to the work ethics, Russian mostly tend to exercise a very formal top-down management style. Employees are used to hearing what to do and how to do it. The level of personal involvement is relatively low and directly connected with the fear of punishment in case of mistake. This directly results in unwillingness to take responsibility by personnel.

The Soviet mentality on the average Russian work floor is far from having disappeared. There still is widespread absenteeism, drunkenness, lack of work ethic and attention to detail. According to the OECD, labor productivity is Russia is among the lowest in Europa.

Again Soviet collectivist culture has resulted in quite low level of individualism in Russian culture. Where Dutch people are encouraged to prioritize themselves, Russians are encouraged to think of other people first. Russians in general are more comfortable in groups than alone. Being alone has a negative connotation, that there is something wrong with you. Generations are raised learning to put themselves aside for the sake of the others. Pursuing your own happiness first is considered individualistic, which is not a compliment in Russian. In work ethics this could mean for example, that a person will restrain himself from performing well only to remain part of the group. In international firms the most common example of collective mind is grouping up “us (Russians) against them (foreigners)”.

Russia being a collective society has direct influence on its masculinity rate. It shows that the group values are more important than individual values or needs. The fact that both Russia and the Netherlands score low on the masculinity rate, and as a result are both driven rather by liking what they do than by willing to be the best, the reasons two countries have are different. Where the Dutch are driven by the taught and strongly present feeling of personal satisfaction and importance, the Russians are driven by emotional climate in the group, by not willing to ruin the balance in the group. This
ultimately resulting from the fear of becoming an outcast. A high level of conformism is typical for Russian cultural climate. Another typical showcase of lower masculinity in Russian culture is their inability to accept compliments and to sell themselves. From school on Russian are taught being modest is a virtue. It results in people not daring taking pride in what they did and being over-modest when given a compliment.

Considering the Russian history and especially a high number of repression periods, Russian do not cope well with uncertainty. Russians prefer knowing what is waiting around the corner and to have calculated potential risks and possible outcomes of the situation before they take a task. Although such behavior should seem normal to any culture - the Dutch also prefer knowing what to expect - the motivation behind it is different for these two countries. Where Dutch want to avoid uncertainty for pragmatic reasons, in order to be able to move forward in their work and reach the planned result, in the Russian culture it is an emotional matter. This has everything to do with avoidance of potential punishment, feeling of guilt, loss of trust and foremost taking responsibility.

Turbulent Soviet history has taught Russians to be very adaptive to changes, group or individual. A saying “We have to live long enough to see it” describes the Russian mindset very well. As no one was sure in tomorrow, no long term plans were made. Political and economic uncertainty also has contributed to the fact that people prefer not to plan and are very flexible in adjusting their existence to a new situation. It makes Russians quite flexible in doing business, up till the scale of seeming reluctant and not willing to commit to the plan. This, however, is not true. Where in the Netherlands people have a partner relationship with the government and financial institutions, in Russia this relationship is based on necessity and distrust. Therefore getting your staff committed on a long term can be a challenge in Russia. One of the ways to do it could be dividing a long term plan into several short term ones.

When talking about indulgence ratio, Russia scores low comparing to the Netherlands. This is also a result of Soviet heritage where the focus in life was clearly put on achieving goals in certain periods of one’s life instead of enjoying those periods. People are bad in entertaining themselves and telling what they actually like to do. Throughout their life they were told what to do no matter whether they liked it or not. A Russian word “nado” which translated as “needs to be done” dominates the society. People tend to be pessimistic about their future and cynic about life and other people. Where in the Netherlands enjoying life is seen as a precondition for one’s good performance, in Russia it is seen as frivolous and shameful. Russians employees, operating subconsciously driven by fear, should be motivated by the right factors to start performing because they want to instead of because they ought to.

Considering the cultural characteristics of Russia and comparing them to those of the Netherlands one can see that simply projecting the Dutch culture or Dutch working culture in particular onto Russia will not work. Taking into account the differences and looking into building bridges between two cultures seems the only way for a company to successfully operate in Russian market.

5.8. Conclusions

In this chapter we investigated Russian logistics paradigm through the concept of doing business in Russia and its economic, historical, geographical and cultural aspects.

Russia and the Netherlands come from different traditions. Historically, especially in the past century, Russia has lived through very turbulent times that have marked her further economic and cultural
development. The Soviet past has left Russia with a highly bureaucratized institutions, badly developed infrastructure and poor working ethics which make it difficult to compete with Western economies. The weather conditions in the greater part of the country are quite severe preventing sufficient logistic movements. Russia is in need of optimization of infrastructure and legislation made more suited to the needs of economy and companies in particular. The infrastructure in the most parts of the country has not been maintained properly. Due to high capital concentration around the larger economic centers like Moscow and Saint Petersburg, the rest of the country suffers from insufficient budgeting and resource allocation. Disturbingly high level of corruption needs to be tackled. Moving towards the more compliant market would make Russia more attractive to the foreign companies.

Cultural differences however should not be underestimated. The profound difference in cultural perceptions between the Netherlands and Russia could lead to much more serious problems in conducting business than ever anticipated by both sides. Apart from the challenges posed by the language barrier, differences in perception, work ethics and expectations should be taken into account by the Dutch companies entering Russian market.

So far, in order to answer the research question “What determines the success of a western logistics company in Russia?” we start by answering the sub-questions:

1. How easy is it really to access the Russian logistics market as a foreign company?

Answer:
1) According to the Doing business index of the World Bank, to open a company in Russia will not take long: the procedure is quite standardized and is not extremely bureaucratic. What this index does not tell is that in order to do so as a foreign company or as a company with a foreign (co-)owner the company needs to have a representative who speaks the language and has the legal papers to do so. The company entering Russian logistics market needs to be aware of the forms of corruptions present and have adequate policies to prevent or combat them.

2) It is essential for the foreign company that wants to access the Russian logistics market to have an employee who knows the Russian legislation. Knowing customs legislation of the Eurasian Economic Union will prevent the unexpected delays in lead-times for the company. Also knowing the bureaucratic structure (the organizations and their functions) shall stimulate a smoother entry to the Russian market.

3) Awareness of the historical and cultural context of the country can facilitate the entry to the Russian market. It will help correlate the expectations and the results.

2. Would bringing in the “western” knowledge be enough to be successful in Russia or should the company be aware of the cultural issues and be willing to adapt in Russia?

3. “When in Rome, do as Romans do” says an old proverb. Would it be true for the logistics market in Russia?

Answer:
1) Cultural issues should absolutely not be ignored. We have studied the comparative table of Western culture versus the Russian culture of Bergelson (2003), which represents the view Russians have on cultural differences. Russians position themselves culturally apart from the Western cultures. Despite the fact that their idea are based on emotional and historical ground, these differences exist and are to be taken seriously. Hofstede (2010) also describes the
background of the cultural differences between Russia and the Netherlands, showing the
potential bottlenecks between the two cultures. The differences underlined by him, when
disregarded, can lead to serious problems within a company or between the company and its
clients or partners.
2) Considering the experience of the Netherlands in the field of logistics, Dutch companies often
bring their know-how to new destinations. However they are also often inclined to bring their
business culture with it. In Russia, where business culture has a long heritage and a deep rooted
historical and economical background, a Dutch company trying to impose its (business) culture
could face serious problems with its employees. As Russian often let their business affairs
depend on their personal contacts and relations, the Dutch could easily be seen as intruders and
know-it-all and therefore risk their business in Russia. Therefore in order to be successful on the
Russian market, a Dutch company needs to find a way to bring their knowledge but in a way that
will show respect to the Russian society, respect to the Russian culture.

4. How different are the logistics paradigms of the Western world and Russia? What are the
differences?
5. Do the same logistics principles apply in Russia as in Western Europe?

Answer:
1) Taking into account Chapters 4 and 5 we can conclude that logistics paradigms of Russia and the
western world (represented in this thesis by the Netherlands) are quite different. Despite the
fact that both paradigms are based on universal logistics principles, their application differs.
2) Different geographical realities dictate the differences in infrastructure and choice of modalities.
The fact that most of the Russian ports are frozen during the winter and all of the Dutch ports
are accessible throughout the year, the practical implementation of logistics means is different.
3) Economical differences such as tax and customs climate, but also the level of facilitation
provided by the government to the companies are very different. Although the tax rate in the
Netherlands is higher than in Russia, the transparency of the Dutch tax system together with its
reliability make the Netherlands an attractive logistics hub. The tax climate in Russia still poses a
lot of problems for the companies willing to operate in that market. In addition to that the
language barrier in Russia makes it very difficult for foreign companies to start business there.

Considering the answers to the questions above, the hypothesis of this research “The key to successful
operating in Russia as a western European LSP is to adapt to the local way of doing business” can so far
be answered as follows:

Answer:

No doubt, a foreign company could start a business in Russia. It will take time, probably longer than it
would otherwise take a Russian company, but it is possible. Also hiring staff will not be a problem: there
are enough qualified people there. However taking into account the researched literature, the following
idea emerges: if a company wants to remain operating on the Russian market and be successful, it needs
to embrace the cultural context of its operations and understand the economical and historical
preconditions. It doesn’t mean though that the company needs to change its business ethics. It just
needs to recognize the differences there are between the Russian and the Dutch way.
Having covered the theoretical part of the research in this and previous chapters, in the next chapter we will look into the practical implications of logistics in Russia. Using the data from a case study we will analyze the influence of the cultural factor on successful functioning of a Dutch LSP in Russia.
6. Overcoming logistics challenges in Russia, a case study

6.1. Introduction
In the literature research we concluded that cultural aspect of logistics should not be underestimated as it serves as one of the essentials for successful operations in foreign country. Without cultural awareness a Western company operating in a Russian market ultimately will not succeed. We have also researched the differences in logistics paradigms between Russia and the Netherlands. Apart from obvious economic differences, cultural differences stand out. The fundamental approach to work ethics is different creating a potentially risky situation for a company when it wants to start business in a country like Russia without recognizing the cultural differences.

In this chapter we will look at the Russian logistics challenges through the prism of experiences of a Dutch LSP operating in Russia for a significant period of time. The structure of this chapter reflects the structure of the questionnaire used within the case study. For each section of the chapter examples from the case study are provided as reflection to the theoretical part.

6.2. Case description
In order to test our research hypothesis “The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business” an exploratory case study research was chosen. For this research a single case study concept was used due to the representability of the case to the theory testing considering the nature of the company, its operations, management and ownership characteristics and the way the company conducts business in Russia.

For the sake of anonymity, we will refer to this company as “Company A”. Company A is a logistics company (3PL), daughter of a Dutch Company, who itself is a part of a larger concern of logistics providers across the world.

When the company entered the Russian market in 1991, Russia was re-inventing itself. The Soviet Union collapsed and so did the economic structure of the country. It was a chaos in which everything was possible and nothing was possible at the same time. A foreign company entering the Russian market faced numerous problems: from registration to paying taxes, from opening a bank account to getting paid by the clients. Customs procedures were unclear, the tax rates were unclear, the organizations responsible for certain business processes were unclear – in short the whole situation was unclear. When Company A entered the Russian market they were the first (foreign) logistics provider there. Now there are about ten international and Russian logistics companies operating on the Russian market.

Now, 26 years later, company A still operates on the Russian market, having about 70 employees (of which 4 are expats, including the Dutch General Manager). They operate 20 trucks. Company A has two offices in Moscow and Saint Petersburg. Their warehouses are also situated in these cities. Their transport network covers whole Russia, where part of routes they cover themselves, mostly European part of Russia and cross-border road shipments. Other shipments are being outsources to subcontractors or partners within the mother company.

Company A serves all branches, private as well as businesses. Their preferences lay with shipments for one time large events or smaller but repetitive shipments. Most of their freight is transported FTL, most of the relocation services they provide are done LTL. They engage in forwarding, provide cargo insurance as a service to their client. Also storage facilities, repacking, reloading and consolidation of goods are
available as services for the clients. As extra services personalized payment solutions as well as translation services where needed are offered to the clients. In their daily operations Company A uses the following technics: warehouse / DC management, transportation management (planning and scheduling), visibility, network modeling and optimization, bar coding, global trade management tools, electronic data interchange (EDI), web portals for booking, order tracking, inventory management and billing, customer order management, supply chain planning, customer relationship management (CRM), distributed order management, advanced analytics and data mining tools, cloud-based systems, yard management, RFID tags etc.

As Company A is a daughter of a larger Dutch company who is a part of a larger consolidating international network they are able to offer their client forwarding to larger geographic area and intermodal transport chains. Being a part of a larger company in the Netherlands and a larger multinational logistics provider, the company uses the same IT systems as the mother company and all other subsidiaries. All shipments are traceable on barcode (track and trace application), an invoice application is in place, large clients can follow their shipments per truck. All IT systems are designed at the main office in the Netherlands.

6.3. Business strategy
The Russian market has grown exponentially over the last decades following rising oil prices. People could all of a sudden afford much more. The market had to anticipate the growing needs of the customers. As a result a special consumer behavior was formed: clients wanted short response times and a high level of service. They would also prefer special treatment by companies. Companies would compete with each other over the level of special treatment and customer care. The economic situation in the country changed, but the customers’ attitude remained. Therefore logistics companies needed to find a niche to operate within or learn to distinguish themselves from their competitors.

- To remain competitive and attractive for customers, Company A is not looking for regular transport solutions, they see their added value in service they provide to the clients or a “one stop shop” concept as they like to call it. The client should be relieved of all the hassle connected with the shipment of his goods. Considering their years of experience on the Russian market they are able to assess how the client can be helped the best and this way provide the best tailor-made service to him. Often new entrants to the Russian market have no idea how to approach the market, where to start. The clients operating or aspiring to operate on the Russian market often choose Company A because of their approach of “one stop shop”.

- Company A does not consider the large foreign logistics providers like DHL, DB Schenker etc. as their competitors. It believes to differ from them in their approach: where these companies work with big multinationals only doing regular (repetitive) transports, this company concentrates on client-specific approach. Russian logistics providers, however, are the real competitors for company A. Russian companies have the cultural, linguistic and organizational advantage of home base.

Historically Russians are careful with everything which is not Russian. The idea behind such attitude is that a foreign company would not be able to perceive the real needs of a Russian customer. A foreign company is often perceived to charges more for the services than a local one. When this is true it happens due to the compliance issues (no possibility to lower the prices by lowering the taxes to be paid). But on the other hand a foreign company is perceived to deliver a better quality product, to be more reliable and trustworthy and to give more assurance in bank transactions.
Despite ample experience on the Russian market the customers still perceive Company A as a foreign company. Company A positions itself on the Russian market as a foreign company with a Russian touch. This Russian touch can be explained by understanding how doing business in Russia works, thinking in solutions instead of problems and continuing exploring the new market possibilities.

Competition is fierce on the Russian market. Customers tend to choose the cheapest offer, which sometimes pushes LSP’s to lower their prices by cutting corners in terms of quality or compliance. Compliance is another issue within the framework of doing business in Russia. Companies try to reduce the amount of taxes paid by lowering the official salaries of employees, hiding the real incomes and as a result being able to offer lower prices to the customers, outranking the compliant companies.

Company A has a strict compliance policy and wins clients over with that. It made an anti-bribing anti-corruption training obligatory for all employees being repeated every year. There are no rules in Russia mandating such training. This training is being carried out to insure the compliance of the staff and the possibility of being contracted by international companies requiring a proof of compliance. Such strict compliance policy makes that company A lost a few tenders, because it was unable to provide as low prices as its local competitors. However maintaining such high standards also pays off as client-companies with the same compliance standards hire company A because of it. Mostly these are Western companies working in Russia or entering the Russian market.

The Russian business environment has always been challenging, not only for the foreign companies, but also for local ones. One of the examples of such challenges is customer service in Russia. In the Soviet times the services existed not to please but to serve according to minimum standards. Only the strictly needed steps were taken to complete the task, no extra effort to be nice or to understand the client were ever considered. This attitude still prevails in Russia, although to a lesser degree. In such environment western companies offering a different (i.e. client-friendly) approach are in high demand. Customer service is on the rise in Russia. Big Russian companies advertise themselves as client friendly and client-oriented trainings are very popular. However, client friendliness goes beyond smiling to the customer. It flows through all the work processes requiring a client to following up on final steps of the service. Western companies are appreciated for their client approach, so a western company hiring local personnel needs to be able to deliver the same quality of client approach as they do at their home country.

To maintain their client approach on a high level, Company A still chooses to have expats working for the company to make sure the Russian employees are working in a client-oriented, friendly way. In previous years more expats were needed to ensure the level of commitment and service-orientation of the local staff. New generations of Russians are taking client-oriented approach more seriously thus taking responsibility for being client-oriented themselves and living up to the western standards of doing business, making a large amount of expats present in the company unnecessary.

The highly unpredictable Russian economy demands from companies to be prepared for constant change and think ahead about other possibilities of conducting business. The unpredictability of the market also makes long term planning difficult. This results in lower trust for financial institutions and governmental organizations. While the tax rates are not high, the ambiguity and cumbersomeness of tax system pushes companies to tax avoidance or lowering their official profit numbers to lower the taxes.
Russian authorities still prefer paper to digital sources of communication, despite their officially announced course towards digitalization.

- Company A started as a relocation service provider. However, in Russia it is difficult to know what will happen next. Therefore a healthy motto is not to go with every flow. From the project-based work new business solutions emerge, i.e. delivery due date, warehouse services etc.
- If Company A had to start from scratch today they would still choose Russia for its great possibilities. Comparing to Western Europe where business is strictly aligned with rules of engagement, all the procedures are written out and the future of a company is more or less predictable, in Russia the business is in a process of getting shaped up. Despite the bureaucracy, a company can still have high profit margins, one can still pioneer there.

### 6.4. Economic model of Russia

“If you want your shipment to move smoothly in Russia you ought to hire Russian speaking drivers. Non-Russian speaking drivers, no matter how good of a driver they are will have a bigger risk of being pulled over by customs or police for false reasons.”

The current economic model of Russia can best be described as a troubled market economy. The state still is heavily involved in business, seeing it as a source of income (taxes and duties) and often as a potential threat to influence of the state. Considering its history, Russia is a modern country that has started its way towards market economy only around 30 years ago, which results in certain phenomena that used to be in place in Europe as well. It makes work in Russia very labor-intensive: every step you take requires a lot of effort and insight.

- Company A has grown moderately (consciously) over the past years. The profit margins are still healthy, though the tax and customs duties are quite high and are difficult to claim back.

Due to the past of planned economy Russian logistic market often fails in forecasting demand and inventory management. There are many reasons for that: low supplier delivery reliability, issues at clearing customs, poor infrastructure and long distances. This often causes high out of stock levels.

- When comparing the current situation to e.g. 10 years ago Company A sees a few obvious improvements. Governmental trust to businesses has increased. Russia is working on a similar to the AEO concept where trusted importers and exporters will have less controls and faster clearance through customs. The business climate is more stable now than it was 10 years ago. There are instruments in place making companies’ lives easier and more predictable. It takes less time to open a company and the rules are more transparent. The bank affairs are easier to arrange due to the widely used internet banking and guaranty systems in place. However the level of paperwork is still very extensive and the amount of signatures one has to put and copies one has to make of the same document still pose a serious delay in companies’ plans.

### 6.5. Staff

Russian management style is mostly vertical and autocratic. Employees expect their manager to tell them what to do and to assume all the responsibility when something goes wrong. Brainstorming for ideas is not appreciated. Such style does not empower people or motivate them. It creates a power vacuum because no one is taking responsibility. The Dutch management style can be characterized as participative as the employees are encouraged to participate in decision making. Taking responsibility
has no personal consequences for the employees and is therefore not feared by them. Such management style when exercised in Russia is seen as weakness of the manager by the employees.

- Company A exercises the “servant leadership” management style, first proposed by R. Greenleaf (Dierendonck, 2010). This management style evolves around the idea that a person begins with the will to serve the others and only then to manage the others. This way, the manager leads his staff from the same serve-perspective first. This implies that every employee is important and can make a difference. The employee is there to serve the client. In the meantime the employees are encouraged to take responsibility and make their own decisions. All the managers get a mandatory course teaching how to use this management style. When introduced within Company A, there was a lot of resentment at first. It took time for the local employees (including managers) to understand that the level of command was not vertical, but horizontal.

Personnel in Russia is more loyal nowadays. This has to do with a more stable labor-market and a grown amount of well-educated staff. This makes companies value their staff more which results in all sorts of technics of keeping one’s personnel employed longer. However lifetime employment is still a prerogative of governmental institutions.

- Anno 2017 Company A has 70 people on staff, of which 4 expats including the General Manager who is a Dutch citizen. All expat staff was hired in the previous years because of lack of trustworthy and capable personnel in Russia. The new generations of Russian employees are adapting the same values as their European colleagues, making it possible for Company A to opt for a 100% Russian staff in the future.

Despite of the fact that the Russian work force is getting able to replace the expats, there are some specific issues to bear in mind when hiring personnel:

1. Labor productivity. According to the OECD reports labor productivity in Russia is structurally lower than in Western Europe.
   - Throughout the whole company including the daughter (Company A), there is a minimum amount of files to be handled per year set for all the offices in different country. Where the employees of the main office in the Netherlands are supposed to handle 400 files a year, their Russian colleagues only need to work through 300. To motivate the staff Company A rewards with bonus all the extra files above the 300 needed. Also whenever there is a good feedback from the client about the services provided, the whole team gets a bonus or loses one when the feedback is negative. This is meant to push employees to work well themselves and creates a healthy competitive environment where people are willing to reach a higher goal together as a team. People who stand out would be rewarded by an annual course in the Netherlands.

2. Skilled labor force. When looking for a new employee in Russia one has to bear in mind that if an employee already has experience in a certain area, he will most probably be difficult to re-educate according to your company’s wishes.
   - Company A tries to hire highly educated people with no previous experience, but willing to work hard. This of course does not apply for very specific areas like bookkeeping or customs. To keep staff in the company, Company A tries to fill up vacancies internally first, promoting people. They work with permanent contracts giving their staff security.
Permanent contracts are easier to arrange in Russia than in the Netherlands because of the labor law allowing for less complicated procedure when firing an employee.

3. **Integrity of the staff.** When working in a company with different cultures, communication is key. Often trust from one side gets misused by the other side due to cultural clashes or simply differences. Trust is very important issue, but so is control. To find a golden middle between these two notions means a healthy work environment.

- Staff at Company A works according to the Servant leadership principle where they all are responsible for the quality of product or service delivered. There are performance interviews held on a regular basis. There are systems in place to monitor work activity of the staff and check on working hours. There are IT systems in place that monitor cyber activity of employees that can identify whether employees are using internet for work or private purposes. Sick leaves are being monitored to distill misuse. True cases are being paid 100%. These measures in place apply to both the Russian office (Company A) as well as the Dutch mother office.

6.6. **Rule of law and customs issues**

In terms of trade barriers in cooperation with customs the biggest issues Company A encounters are:

1. **VAT refund.**
   - This is the biggest problem for Company A. The amounts for VAT refund are large and it takes a lot of time to get it back from the customs authorities. Customs is not interested in giving the VAT back to companies, therefore they slower the process. The documentation needed to get the VAT back is extensive and requires Company A to have people on those files almost full time. In some cases the delay can reach 6-12 months.

2. **Valuation codes.**
   - Not all the TARIC codes are the same in Russia and EU. It requires well-skilled staff to know where the differences lay. A lot depends on company’s customs broker. Different codes can result in disputes between company (represented firstly by the driver and then by the broker). It’s therefore very important that the driver speaks Russian in order to be able to solve rising issues at the border crossing points.

3. **Long lines at the customs check points at borders.**
   - Depending on a border crossing point there are long or very long waiting lines. Being in business for a long time provides a company with enough knowledge to choose the right border crossing point to have the goods through the border as quickly as possible. A lot depends on a customs broker and his connections. It’s crucial that the drivers speak Russian otherwise they are bound to wait longer.

There are many different border crossing points (BCP) to enter Russia, or the Customs Union to be precise. A lot depends on a choice of a BCP. Often companies use BCP’s where they have connections or which are known for shorter waiting times.

- To enter Russia Company A uses border crossing points with Belarus, Latvia and the port of St.-Petersburg. When long lines at the border are anticipated the trucks would deviate to a different one. Company A gets to deal with customs authorities at the border and inland. At the border is quite time consuming due to filling out the forms. Inland is often quite quick.
- All in all the transport to and from Russia is being perceived by Company A as medium difficult.
If considering the possible changes in work of customs authorities 2 points emerge:

1. Introduction of a preferential status for trusted importers and exporters which would lead to shorter waiting times at the border and to faster clearance of goods
2. Introduction of clearance possibility at the warehouse of the company. At the moment during import formalities a truck gets his release papers at the border, drives to the warehouse and then the auto needs to go to the clearance terminal to finalize the clearance. With the introduction of a new process the clearance could be made digitally and only when the goods are being marked for inspection the customs officer would drive to the warehouse of the company to check the goods.

- When considering the changes Company A sees their added value for the clients in being able to solve all these problems. When the problems are solved permanently, the company could lose part of its clients.

The efficiency of Russian customs has changed a lot in the last 25 years. From total domination of paper to more digital now although still leaving enough room for improvement. To clear the goods for free circulation a company has 48 hours nowadays. The documents can be already pre-filled before the actual clearance. Guaranties on the bank account are traceable from the very beginning of the procedure. This all only applies to the regular goods, whenever there is some new type of goods, it will take time. The principle “You are who you know” applies here as well.

According to many sources corruption in Russia is a common phenomenon. Customs officials are no exception. There are different sorts of corruption, but the most common is money extortion in exchange for (faster) release of goods. However companies that engage in these kinds of payments are in breach of their own compliance and anti-corruption policies.

- Company A does not engage in such practices, because doing so would mean losing clients with strict anti-corruption policy. However the extra costs for the customs service is often included into the brokerage fee.

Historically the way of doing business in Russia has been peculiar. As the Soviet heritage high lack of trust on governmental level together with high level of trust in interpersonal level making conducting business very personal or “you are who you know”. Having a network is everything. Relationships are vital in Russian (business) culture. Good relationship with customs authorities is a very important aspect in functioning of the company. Therefore a lot of attention goes to maintaining good contacts with customs, investing in mutual trust and interest.

- Company A pays attention to maintaining long term relationships with their clients. By receiving personal attention clients feel important. The same works for the authorities. Russian authorities are susceptible to personal contacts and would be more likely to help when they have an established relationship with the company.

6.7. Geographical size, regional differentiation and transport issues
Weather plays a very important role in Russian logistics. Most part of Russia becomes inaccessible in the winter. Especially the Asian part of Russia becomes almost inaccessible in winter. Apart from the harsh weather condition this also has to do with very bad roads infrastructure in Russia. Where the roads are bearable around the big cities (Moscow, St.-Petersburg etc.), they become totally inaccessible in the
country. Even when the roads are good, they often are laid through the cities, towns and villages, which implies traffic lights, pedestrians crossing, speed limitations etc. which only delay the transport.

- Company A serves the whole Russian Federation. The European part up till Ekaterinburg (in the Ural mountains) they can cover with their own fleet, for the Asian part of Russia they use subcontractors. The reason for not covering the whole of Russia themselves are the lack of cargo on the way back and rough weather conditions in the Asian part of Russia.

To sum up, Company A has been operating on the Russian logistics market for 26 years. Due to its Western working and management style it managed to get a niche on the market of LSP’s. Company A has its own materials and tools, but also uses sub-contractors, especially in the Asian part of Russia due to bad infrastructure and weather conditions. The company positions itself as a foreign company with a Russian tint claiming to have an understanding of the market and cultural peculiarities. Clients value the fact that in Company A they get Western trustworthiness with the local knowledge.

If it weren’t for the knowledge of local rules and procedures, but also of the Russian cultural peculiarities, Company A would be just another foreign company on the Russian market. Its lead times would be longer, customs procedures would be more obscure and cumbersome. Not having anticipated changes in the economic situation in Russia would have left the company with only their former core business – relocation services – most probably pushing the company out of business. Having the local insight and combining it with the Dutch management style adopted to the Russian social reality, distinguishes Company A from other foreign LSP’s and makes it competitive on the Russian market.

6.8. Conclusions
In this chapter we researched the logistics peculiarities of Russia. We have used an explanatory single case study to underline the differences in Russian and Dutch approached in doing business. The company A is a Dutch LSP operating on the Russian market for 26 years. For the case study we had the respondents fill in a questionnaire. The question range covered different factors influencing logistics operations in Russia. How logistics company operates in Russia, which are the vocal points of the business strategy for such operations, what it has to do to keep operating on the Russian market. Are there any specifics to their operations because of the fact that the company is a foreign one? All these questions we have tried to cover in this chapter.

Russian logistics has been formed by the Russian reality. Its infrastructure was formed in the Soviet period and is still widely used. This makes logistics operations throughout Russia difficult. The climate is diverse and also poses a real challenge for the logistics companies, especially in winter.

Economic factors of logistics are severely influenced by the Soviet heritage as well. The bureaucratic apparat has not changed much, offering little support and facilitation to the businesses. Paper is still widely used by majority of organizations, governmental or private ones. Trust in the government is low and results in avoiding taxes and lowering official profit numbers by companies.

In terms of work ethics, the attitude and expectations of the Russian personnel are different from those of their Dutch colleagues. The vertical line of command is still predominant, if not in the organization, then in people’s mind. Staff is usually not used to speaking their mind and taking decisions is feared because of a remote possibility to also get the blame if something goes wrong.
By analyzing the results of the case study we are able to give answers to the research questions of the thesis:

1. **How easy is it really to access the Russian logistics market as a foreign company?**

   **Answer:**
   
   1) There is a difference between accessing the Russian logistics market 26 years ago and now. When company A entered the Russian market it was very difficult because of lack of decent normative and legal base for operations. There was no appropriate legal or tax system in place. However this ‘power vacuum’ opened possibilities for companies who dared to take risk. At this moment the legal and tax systems are in place and functioning, but the market is full and only companies with specific product or service are able to make it in the Russian market. Having a specific niche for the company is essential to its success.

   2) In terms of founding a company there are several rules to be followed and it should be possible to open a company in Russia, but all the bureaucratic affairs still require knowing the local procedures, organizations and the Russian language. Thus in terms of procedures opening a logistics company in Russia as a foreigner is possible, when all the requirements are met. However, without the knowledge of local procedures and the language it will be fairly impossible.

   3) Russian market is very attractive to foreign companies due to its size and potential. This means that competition is fierce. Russian logistics market has several international and Russian logistics companies present. It’s therefore imminent that a new company can stand out in order to remain on the market and be competitive. Company A has tackled this issue by offering its clients a “one stop shop”- service, facilitating them throughout the whole process.

2. **Would bringing in the “western” knowledge be enough to be successful in Russia or should the company be aware of the cultural issues and be willing to adapt in Russia?**

3. **“When in Rome, do as Romans do”, says an old proverb. Would it be true for the logistics market in Russia?**

   **Answer:**
   
   1) From the experience of company A, foreign companies are valued by the Russian clients for their predictability, responsibility, transparency and compliance policy. Russian clients think that foreign companies bring in quality of product or service, which Russian companies sometimes have trouble providing. Foreign companies are considered more client-friendly than their Russian counterparts. Foreign logistics companies are known for their experience and are considered more reliable. There is more chance that a Russian client will hire a foreign company for cross-border transports than a Russian one. However for transport within Russia a Russian client would most likely hire a Russian company out of opinion that they should know their market better and would be likely to arrange everything faster.

   2) In order to serve their clients in the best way and to bind them, company A uses its own means of transport where it has enough coverage and on the trajectories where it is confident it can deliver a high quality service. Otherwise it forwards the clients to other logistics companies, creating partner relationships with those as well.

   3) This has all to do with perceptions of Russian clients. However those are grounded on experience. A foreign company would likely have a smaller network of partners in Russia than a
Russian logistics company. A foreign LSP would be considered to have more difficulties with customs than a Russian one etc. These assumptions are basically based on the notion of “us versus them” and about the fact that a foreigner cannot perceive a Russian.

4) In order to be able to use the knowledge a foreign company will bring to Russia it needs to have awareness about local market specifics, not the least of which is cultural perception. This company needs to adapt to local business climate and enrich its network and raise its awareness of expectations towards them by the local market participants.

4. How different are the logistics paradigms of the Western world and Russia? What are the differences?
5. Do the same logistics principles apply in Russia as in Western Europe?

Answer:
1) The way logistics functions is fundamentally the same: comparable targets, the same modalities and the same operating principles. However, as we see within the case study, the reality of logistics in Russia is totally different from that in the Netherlands. The rules of engagement are more vague making compliance standards of the company much harder to live up to. Due to lack of stability in business, long term planning makes place for semi-short planning in Russia. Only the relations or networks are long term in Russia, they are one of the drivers of success of the company. By having trusted employees, partners or clients, the company can build on its future in Russia.

2) Work productivity in Russia is structurally much lower than in the Netherlands. Hiring staff that can be educated into the western way of working is crucial to a company that has western standards to live up to. By constantly educating one’s staff, giving them a sense of security and appreciation, a motivation to adapt to the western client approach can be created and maintained. By rewarding one’s staff for cooperating with each other and for taking responsibility decreases aversion against horizontal leadership.

3) Rule of law and tax and customs regulations still are probably the most problematic for companies in terms of doing business in Russia. Russian ambiguous legislation which is open to interpretation and is not facilitating trade is difficult to adjust to when a company is used to the Dutch legislation. The role of the state in Russia is different from that in the Netherlands. Where in the Netherlands the state is a facilitator of trade, in Russia state is a monitoring agent making sure it is not bypassed in any transaction.

Considering the answers to the sub research questions, from the practical point of view, based on the experiences from the case study used, we can conclude that the hypothesis of this thesis “The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business” is valid. No matter how important the knowledge that a western company brings to Russia is, if this company cannot adapt to the Russian way of doing business, it ultimately will not succeed. The company needs to be aware of the cultural aspects of doing business in Russia. It should be able to adapt to the less-secure business environment. The management should be ready to invest in its staff by investing in relationship with them, by encouraging initiative and taking responsibility. Also a network should be created from reliable partners to grateful clients which would ultimately provide the safety net for the company.
7. Final conclusions and recommendations for further research

7.1. Final conclusions

In this thesis we have looked into the differences in logistics paradigms of the Netherlands and Russia. We have looked at the way the specific geographic, historical and above all cultural factors are influencing the way logistics operations are carried out by non-Russian companies.

We have conducted a literature research looking into the role of culture and cultural differences in logistics. Logistics is generally perceived from the economic point of view, leaving out the cultural aspect. There are not so many studies bringing cultural aspects of logistics into the light. Luo et al (2001) was one of the first researchers who suggested that the cultural aspect is as important as economic or infrastructural aspects of logistics. Shinohara (2006) backs up the theory of Luo (2001) and underlines the importance of the cultural study in cross-border business. Darkow et al (2015) underlines cultural differences as one of the potential barriers which foreign companies encounter while operating in Russia. Relying on the researched literature, cultural aspects of logistics should not be ignored when entering a foreign market.

Further following the theory of Hofstede et al (2010) we compared the Dutch and Russian cultures identifying their differences following the six cultural factors: power distance, level of individualism, masculinity, uncertainty avoidance, long term orientation and indulgence. Understanding these differences is crucial to the successful operations in Russia.

Having identified the importance of the cultural aspect for logistics research we looked into the practical implications of logistics in Russia. For the benefit of comparison we also, briefly, touched upon the logistics profile of the Netherlands. Russian logistics has a number of peculiarities due to Russia’s geographical, economic and historical position. In this chapter we have tried to answer the research questions from a theoretical point of view. We have then concluded that the hypothesis of the research was valid based on the theoretical research conducted.

After having conducted the theoretical analysis we further researched the specifics of the Russian logistics market based on the outcomes of a case study. We used a single case study of a Dutch logistics company operating on the Russian market. Based on the experiences of this company: its operations, the challenges it faced and the solutions it has developed, we were able to see how a western logistics company can successfully do business in Russia.

Answering the research questions form a practical point of view in this chapter we concluded that the hypothesis of this thesis “The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business” is also valid from the practical point of view of the empirical part of the thesis.

The performance of a western company in Russia is dictated by the understanding of Russia and the cultural specifics of this market. As a result, the hypothesis of the research “The key to successful operating in Russia as a western European LSP is to adapt to the local way of doing business” is true to the extent that it does not interfere with company’s compliance rules. By the local way of doing business one should understand the set of rules (official and unofficial) that are commonly accepted in the country and cultural aspects to be respected. Not understanding and not respecting the cultural codes will eventually lead to disruption of operations and ultimately to the termination of operation. Part of
the cultural codes are, especially in the case of Russia, command of the language, knowledge of the way of expressing oneself and work ethics. The historical context should not be disregarded either.

The logistics paradigms of western countries (such as the Netherlands) and Russia appear to be quite different. Though basic logistic functions are the same, operational targets are the same as well as the expected outcomes, the reality of Russian logistics is slightly different from the western variant.

The government system goes back to the Soviet times with its distrust to companies. For example the profit oriented approach of customs authorities is an absolute product of the Soviet heritage. FTS – Russian Customs Service - still being one of the biggest providers for the state treasury and not willing to part with its past for the sake of trade facilitation is the living proof of that heritage.

Russian infrastructure, for the most part of it also inherited from the Soviet Union is in a bad state requiring large investments. Climate specifics of Russia makes the majority of its roads inaccessible in winters. These aspects make logistics movements mostly in the Asian part of Russia difficult. This requires the western company to have understanding of the possibilities and a sound image of its own capabilities.

Next to these complications, the cultural aspects of logistics operations make it difficult to access the Russian market and to operate in it. Work productivity in Russia is lower than in the Netherlands, the vertical management style is historically being appreciated more than the horizontal one. A Russian employee would prefer not to take responsibility for his work and would expect to receive orders from the boss rather than draw a course of actions himself.

Compliance is another big issue on the Russian market. Considering a high corruption rate throughout the country and all layers of economy, it is a challenge for a foreign company to stay compliant and not to engage in corruption. Company needs to have strict rules for non-tolerating of corruption and to be able to enforce them. Important is not to confuse corruption with maintaining relationship.

7.2. Limitations of research
The limitations of current study were on one side time related. In order to fully research such phenomenon as cultural differences and especially regarding their impact on business operations in a country, more time and thorough research is needed. On the other side the fact that a single case study was used could raise questions about the validity of the information gathered. In order to conduct an academic study about more than one country, sources from all countries are needed. The quality of sources needs to be constantly high. In case of Russian sources one should be particularly careful with interpretations.

7.3. Suggestions for further studies
The current study focused primarily on western logistic service providers operating in Russia. In order to fully research a complex phenomenon such as cultural differences and their influence on logistics, more thorough research is needed. This would help raise the quality of the existing body of academic literature on intercultural logistics and would prove to be useful for business community.

We hope that this thesis helps raising awareness of importance of studying intercultural differences when opting for entering a foreign market. Companies should not underestimate the advantages of such knowledge and the benefits they could get from using the obtained knowledge in their operations.
Literature


Appendices
Appendix 1 Questionnaire for case study

Questionnaire

The purpose of this questionnaire is to gather information about the way LSPs operate on the Russian market. Your company has been operating successfully in Russia since the early 1990s. You are cordially requested to elaborate on a number of issues that are key to operating in this challenging environment.

The questions are categorized according to relevance for this particular research. I would appreciate if you therefore answered the questions top-down.

I would really appreciate elaborate answers on the questions mentioning answering not only by YES or NO, but describing the HOW.

The answers you give will be treated confidentially. If for any reason you would prefer to answer (certain) questions verbally, then that is possible as well.

I. Section 1. Business strategy

1. Does your company have a formal business strategy which incorporates the challenges of the Russian market?
2. If so, what are the key elements?
3. To what extent does your philosophy of doing business differ from comparable companies? What are your unique selling points?
4. How do you balance internal control and risk mitigation with measuring your quality and improving your processes?
5. Which role does information technology play in your business now compared to the moment you entered the market place?
6. To what extent does the Russian (business) environment pose a challenge to keep operating in Russia?
7. If your company would start from scratch today, would you choose Russia again?

II. Section 2. Economic model of Russia

1. How would you describe the current economic model of Russia? Is it a market economy in all aspects or is it a hybrid one?
2. If you compare the current economic climate in Russia to the year you started operations, which differences are most apparent?
3. Which aspects of the economic model would you like to be changed in order to optimize your operations? (e.g. accounting systems, methods of payment, credit lines, level of government facilitation etc)
4. How do Russian customers perceive you?
5. How do non-Russian companies in Russia perceive you?
6. How do you create customer intimacy with both groups? Are there differences for both groups?
7. How do you position yourself (as a Russian, foreign or hybrid company)?
8. How would you describe the style of leadership in the company?
9. According to OECD, labor productivity in Russia is quite low. How do you attract and train your workforce and how do you keep them motivated?
10. Do you hire staff with or without logistics knowledge and experience and why?
11. What specific personnel issues do you face?
12. How would you describe the control – trust relationship within your company?
   a) Do you have fixed or flexible working hours?
   b) Do you have performance interviews?
   c) Do you monitor your staff’s work closely?
   d) Is your staff personally responsible for the loss or damage they cause?
13. Do you have different control measures for the Russian office than for the other offices (e.g. main office in the Netherlands)?

III. Section 3. Rule of law and customs issues

1. Do you see any particular barriers for trade with the customs regulations between Russia and the EU?
2. To what extent have the sanctions impacted the border crossing procedures?
3. Which border crossing points do you use to enter and leave Russia?
   a) What are the main reasons for the choice you make? Are they all logistics, or other? (if applicable please comment on the impact of sanctions)
   b) To which extend do customs procedures differ between border crossing points?
4. To what degree do you perceive your transport activities to be easy or complicated to carry out today?
5. Would it be desirable to change something? (Both logisticsly and regulatory).
6. How often do you deal with Russian customs? Where does the interaction taken place (border/inland)?
7. How do you rate the efficiency of Russian customs now compared to the time you entered the market place?
8. According to many sources, some Russian customs officers are said to require non-official payment to facilitate their processes. Have you ever encountered this? If so, how do you deal with it?

IV. Section 4. Geographical size, regional differentiation and transport issues

1. Do you service the entire Russian Federation?
2. If so, please describe regional differences that have an impact on your operations.
3. What is your assessment of the quality of the Russian roads (if applicable also railroads)?
4. What are the implications of climate on your operations?
5. One of the known issues, enabling foreign drivers to work in Russia is their ability to speak Russian. In your opinion, is it possible to survive here with no or only rudimentary knowledge of the language?
V. Section 5. Basis characteristics

1. How long have you been active on the Russian market?
2. Where is your company based?
3. How would you characterize your company? 2PL, 3PL or 4PL?
4. What is the size of your company in terms of employees and transport fleet?
5. Do you outsource parts of your operation?
6. Who are your main competitors?
7. What type of customers do you currently serve? (Only branches of business and types of goods)
8. Who do you think are your potential, future customers? (Only branches of business and types of goods)
9. What logistics services do you offer? (if applicable, please elaborate on the following subgroups)
   a) Transport
      i) Please describe your freight routes/border crossings, transport times
      ii) Are some of your transports continuous or are many of them special transports (occurring only once)?
      iii) Do you move goods in both directions? Is there any seasonality?
      iv) What is usually the fill rate? Do you transport FTL or also LTL?
   b) Do you engage in Forwarding?
   c) How do you perform Customs clearance?
   d) Do you provide Cargo insurance as a service to your clients?
   e) Do you offer Warehouse and terminal services?
   f) Do you offer Storage facilities to your customers?
   g) Do you offer (re)Packing and other value added services to your customers?
   h) Do you engage in Reloading and consolidation of goods?
   i) Do you offer Payment solutions to your clients?
   j) Do you offer Translation services for your clients?
   k) Are you part of a larger (logistics) network? If so, can you offer the following to your customers:
      i) Enable forwarding to a larger, geographical area?
      ii) Enable an intermodal transport chain (sea, air, rail)?
   l) Are there any other services that you offer to your clients which are not mentioned above?
10. Which of the following techniques do you use in your operations (please indicate YES or NO and ELABORATE):
   a) Warehouse / DC management
   b) Transportation management (Planning)
   c) Visibility
   d) Transportation management (Scheduling)
   e) Network modeling and optimization
   f) Bar coding
   g) Global trade management tools
   h) Electronic data interchange (EDI)
i) Web portals for booking, order tracking, inventory management and billing
j) Customer order management
k) Supply chain planning
l) CRM (Customer relationship management)
m) Distributed order management
n) Advanced analytics and data mining tools
o) Cloud-based systems
p) Yard management
q) RFID tags

11. Are there any questions that were not asked but that are critical to understanding your company correctly?

Thank you for your cooperation!