From West-East knowledge transfer to effective working relationships: Lessons from Commercial Capital S.A.*

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In the process of investing and managing in former Soviet-bloc transition countries, Westerners are exposed to important gaps that must be bridged. Over the last fifteen years and partly through trial and error, CC has developed a comprehensive approach for planning, establishing and managing their investments in these countries by linking mission, goals, organizational structure and organizational culture as components of their overall investment strategy.

Im Laufe des Prozesses der Investionen und des Managements in den früheren Ostblockstaaten sehen die Menschen aus dem Westen sich vielen Schwierigkeiten gegenüber, die es zu beseitigen gilt. In den letzten 15 Jahren und teilweise durch Trial and Error hat Commercial Capital eine umfassende Herangehensweise entwickelt, zur Planung, Entwicklung und Leitung von Investitionen in diesen Ländern mithilfe der Verbindung von Aufgaben, Zielen, der Organisationsstruktur und Organisationskultur als Komponenten einer übergeordneten Investitionsstrategie.

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The last decade has been politically, socially and economically turbulent for many post-socialist transition countries. Despite the fact that many western investors have failed in these countries, often due to their failure to interact effectively with Locals[1], there are promising opportunities to be explored successfully by those who can master the art of dealing with numerous dilemmas, including the one of whether to impose one's own business and management principles and practices in the host environment or to adapt to local ways of doing and managing business. Difficulties in solving this dilemma are not merely related to the legacy of past adversary relations between East and West. Important differences in business values, processes and practices have acquired a new importance today, when the two sides need to work together for the realization of common projects. The major challenge is to engage in long-term relationships that facilitate learning on both sides, Westerners as well as Locals, rather than simply to transfer all the western firms' practices to their local investments. This is hard to achieve as it requires of both sides to question and readjust many deeply ingrained working habits and asks both sides to quickly learn new ways of thinking and acting (Su /Richelieu 1999; Wright et al. 2002; Vlachoutsicos/Lawrence 1996).

In recent years, there has been a growing body of research into the differences that Westerners come up against in their interaction with transition countries-based Locals. Such research has tended to focus on structures of authority (Bollinger 1994; Elenkov 1997; Kelemen 1995; Kossov/Gurkov 1995; Lawrence/Vlachoutsicos 1990), leadership beliefs and styles (Puffer 1996; Shekshnia 1998; Suutari 1997), modes of empowerment (Michailova 2002; Welsh et al. 1993) and performance appraisal (Fey/Bjorkman 2001) and has generated valuable knowledge about how to transfer western know-how and implement particular requirements for success in a competitive market economy (Kelemen 1999; McCarthy/Puffer 1995; Michailova 2000). In this research, analysis and recommendations have tended to focus on aspects of the local business culture on a one-at-a-time basis. In this paper we adopt a holistic approach by linking mission, goals, organizational structure and organizational culture as components of an overall strategy for investing in post-socialist countries and suggest, contrary to prevalent thinking, that western investors should use the same planning elements as would be suitable in investments in the West and/or in joint ventures with western partners. Our analysis and recommendations derive from the trial and error processes through which a

[1] Persons in the Region with whom western investors and managers interact in the process of establishing and operating investments, i.e. partners, managers, personnel as well as other stakeholders such as suppliers, service providers, clients and public officials at the different levels of central, regional and municipal bureaucracies, will be referred to as Locals. Correspondingly, western individual and/or institutional investors and/or managers will be referred to as Westerners.

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leading Greek venture capital firm, **CC**, has, since 1995, developed a model that meets the challenge of working effectively with Locals in former Soviet Union and South East Europe without having to change their own basic tenets about business practice. In this paper we analyze **CC**'s experience in this region[2] and argue that the cornerstone of this successful approach is the principle of equivalence which needs to be nurtured through alignment, joint task forces, the what-how distinction and sensitivity towards ambivalence and fears. Applying those elements in practice led **CC** to the development of an eight-step action model which we present in the paper. The model is comprehensive as it informs all phases and levels of interaction with Locals and can be used by western owners and managers with a serious and long-term business commitment to the region.

The Case and the Methodology

CC is a subsidiary of the large Greek state-controlled Emporiki Bank. It was established in 1994 as the venture capital arm of the Bank with the mandate to focus on Russia, Ukraine and South Eastern Europe. Headquartered in Athens, **CC** has offices in Moscow, Kiev, Bucharest, Sofia and Istanbul. **CC**'s projects are in the field of food and beverages, building materials, consumer and light industrial goods, services and technology. **CC** is a hands-on investor, closely monitoring its investments and supporting its partners with a broad range of services. Capitalized with US$200 million, **CC**, by the end of 1999, had entered 44 investments of which 28 in Greece and Turkey, 9 in South Eastern Europe and 7 in Russia and Ukraine.

CC and the leading flour milling company in Greece, Saint George Mills (SGM), jointly established a new investment entity, Saint George Mills Commercial (SGMC), which eventually bought Titan Mills, Bucharest's largest flour mill. The role of SGMC was not only to supply capital but also to supply **CC**'s expertise in creating successful investments in the region and SGM's production and marketing specific best practices and technology. By cooperating with Titan's management SGMC secured local business know-how as well as relevant networks. Examples drawn from **CC**'s experience with other investments in the region will illustrate its approach further.

The analysis provided in this article is based on documents regarding **CC**'s investments in the region and on interviews conducted at Titan with fifteen people of SGMC, **CC**, and Titan managers at various levels as well as with Romanian Privatization officials. The interviews were conducted by C. Vlachoutsicos and Laure Mougeot Strook, a researcher of the Harvard Business

[2] For ease of exposition, we refer to Russia, Ukraine and South East European transition countries as the "Region".

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School, and several Harvard Business School cases were prepared on the basis of the interview data[3]. Additionally, C. Vlachoutsicos as the Senior Executive Counselor at **CC was** a member of the Strategic Task Force of SGMC for its investment in Titan and other investments in the Region. His observations of **CC** practices were an additional important source of information for the purposes of the analysis provided in this article.

The CC approach to Investing in Transition Countries

CC's experience shows, contrary to prevalent thinking, that western investors should use the same strategic elements as would be suitable in investments in the West and/or in joint ventures with western partners. This involves thinking out the mission of the newly formed enterprise, its more immediate goals, the organizational form that would work effectively, the needed organizational culture and the processes that will be effective for executing the strategy. All this is done as a matter of course for investments in western markets. All too often, however, Westerners who operate in transition economies fail to abide by their own best practices in the mistaken belief that western rules of business interaction do not apply. Then the more vital question arises: how can Westerners ensure that each strategic element is applied in the light of the business and management realities in the Region, and how can they pinpoint what to change and what to leave in place in order to achieve the desired results? In the following section we consider the above mentioned strategic elements and focus on the execution process that needs to be followed in order to succeed in the region.

Strategic Components of CC's Approach

Mission. **CC**'s investments are not short-term projects; its mission is to add substantial value by building strong firms able to prosper long-term in the region and in the face of global competition. Even though many local firms have done well in adjusting to the free market, Locals still have a long way to go in this direction. At the same time, most local firms have been able to prevail and maneuver in their historical environment crucial parts of which are still present today. On no account should Westerners forget that the incumbent local

[3] Harvard Business School Cases No. 9-901-005 "Commercial Capital S.A. (A)", December 2000 and no. 9-901-012 "Commercial Capital S.A. (B)", January 2001, as well as No. 9-70111-086 and 087 "Identifying and Realizing Investments in Eastern Europe (A) and (B), June 2, 2001. These cases were prepared by Professors Ray A. Goldberg and Robert E. Kennedy and by Carin Isabelle Knoop, Executive Director, HBS Global Research Group. Note that since the publication of this case study During 2004, Emporiki Bank as it did with all its subsidiaries, changed the name of Commercial Capital S.A to "Emporiki Venture Capital".

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management has business experience, know-how and extensive trusted networks that will be essential for the success of the new investments. In fact, the need for local know-how may well be a key reason why many western firms moving into the region have in the past chosen partnerships over green-field investments (Ariño et al. 1997; Hitt et al. 2000).

Goals. The essence of the typical investment opportunity in the region, as perceived by **CC**, is the opening for quickly adding value to the local firm's existing product-service business line enabling it to achieve a large market share with favorable margins in a growing market. This can be done by introducing business methods that support cost efficiency, innovative product design, high quality and responsive marketing. This implies that many kinds of tested western business practices will need to be rapidly put in place in the new firm. In Titan's case the new venture's explicit goal was to rapidly add value, a goal that has had critical implications for both the structure and the culture of the new venture.

Organizational structure. An organizational structure that can deliver on the Mission and Goals stated will clearly need to be one that can best handle rapid change and learning. Evidence from organizational research shows that such an organization needs to be relatively flat, relatively egalitarian and open to lateral problem-solving (Lawrence/Lorsch 1967). The picture in the region is different: multi-tiered hierarchies with sharp status differentiation and tight defensive functional group loyalties are characteristic and authoritarian structures with strong vertical chains of command are not an exception. The Structural Task Unit (STU), a group of workers charged with performing a specified task or function, has been the core of the traditional structure of the Soviet enterprise (Lawrence/Vlachoutsicos 1990). STUs function as collective entities that are practically impenetrable to outsiders (Vlachoutsicos 2001). These traditional, highly authoritarian structures have been changing but at a deeper level they still persist. They are must change further in order to achieve **CC**'s Mission and Goals.

Organizational culture. A recurring theme in western practitioners' accounts of their problems in the region has been the intense reluctance of Locals to share crucial information - a feature coined under the notion of knowledge-sharing hostility (Michailova/Husted 2003). Under the Soviet system trust in outsiders has always been in short supply. For reasons of self-survival, trust was only extended to in-groups of close work colleagues (STUs), friends and family (Ariño et al. 1997; Holden et al. 1998). In fact, unless the leader gave explicit approval, divulging information to outsiders, even on trivial matters, was considered treasonable. This can be traced back to the high survival value of information in conditions of extreme and constant shortage of resources in the region as well as to the hazards of being candid with outsiders in the context of a secretive centralist political system (Berliner 1957; Michailova/Worm 2003).

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The transition to the free market has not delivered enough significant results to justify the relaxation of the traditional confidentiality code. If anything, this code has provided a defense mechanism for coping with the distinctive threats and tensions generated by the turbulence of transition. Westerners should invest considerably more time and effort overcoming these defensive barriers as compared to their home turf. The requirement for rapid change and learning in the new venture will set-up the need to develop an organizational culture that values equivalence and horizontal integration between all members and sub-groups of the organization (Stanciu 2004). This is the culture **CC** deliberately undertook to instill in its ventures.

The Cornerstone of CC's Strategy: The Principle of Equivalence

CC's approach implies that in order to be successful in the region, western managers need to adopt a mindset that relies on the principle of equivalence. In this section we present and analyze the essence of the principle of equivalence and take a close look at the management tools for establishing and reinforcing this principle.

CC's methodology relies on the principle that all Locals are treated with equivalence, starting with the primary contact in the region. Assuming that a careful search has already taken place to find a suitable prospective partner or manager who fits the desired profile, the Westerner must ask her/himself whether they will be able to treat this prospect as a true partner (Johnson/Houston 2000). If so, each occasion of interaction with Locals will need to be treated as an exchange in which both sides have something important to contribute that is indispensable to the success of the project at hand. Part and parcel of equivalence is the mutual conviction that both sides have much to gain from considering what the other has to say and much to lose from underestimating the value of such input. If Westerners need to overcome an all too ready tendency to underestimate local input, Locals need to surmount a pervasive defensiveness that blinds them to the value of western modes of management.

The equivalence gap does not start with Locals; it starts with Westerners and it is up to them to take the initiative to bridge it. This is well-illustrated by the manner in which Voudouroglou, the head of SGMC and newly appointed head of Titan, organized the training of the Titan mills staff. Voudouroglou wanted to show that he valued the Locals' existing skills. He believed that Romanian managers had solid basic training, but lacked knowledge and experience of an open market-oriented economy. "We wanted the best of both worlds," he insisted, "the ability of the Romanian managers to navigate in their system, to which we would add a market economy way of doing things." Voudouroglou sent senior managers to visit companies abroad and international exhibitions as well as to formal courses in order to expose them to market economy methods.

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Courses in English were organized for all middle and upper managers. Voudouroglou also made sure that the German and Greek specialists he hired to help improving the quality and marketing sides of the business reported directly to the Romanian managers who remained responsible and were in charge of solving the problems. He also gave responsibility for modernizing the existing corn flakes and wheat dough machinery to the Romanian managers - the US$2 million machinery they had ordered just before Titan's privatization was not his first choice, but because their decision was reasonable, he had gone along with it. "It was most important that they felt in charge, they were learning, and they accepted us," he concluded. The mindset of equivalence is eloquently encapsulated in Voudouroglou's comment "One would be useless without the other, but together we would be unbeatable."

Equivalence does not mean that Westerners must pretend that local knowledge is as good as their own when this is not the case. Voudouroglou made clear that he regarded the local knowledge of free market business methods as inadequate. Hence the training program. At the same time, equivalence was built into the manner in which the training was set up. "It is important to realize," he observed, "that the input the Locals bring – local networks, perception of risk, understanding of local legislation and its loopholes, knowledge of the licensing labyrinth, protection against organized crime - is equal in value to the capital and know-how the western firm brings"[4].

A mindset of equivalence enables western investors to establish constructive cooperation with Locals. **CC**'s experience shows that such cooperation constitutes a social capital that can add immense value to the investment. A genuine cultivation of a mindset of equivalence entails that western investors approach Locals with the same mindset as that which automatically informs their interaction with western partners. Western businessmen take it for granted that the prospects for cooperation between them would be bleak were one of the parties to enter the project with an "I always know what's best and therefore you better change your ways"-attitude. The guiding principles which inform interaction between enterprises in the West are just as valid and as relevant for interaction with Locals.

The mindset of accommodating to local conditions does not entail altering the guiding principles of the western investor's distinctive core business practice. The effort of adjusting to local conditions implies working to develop ways by which their company's core business practice can effectively be adopted and enacted. Westerners usually seem to assume that differences with Locals are so vast that western rules of business interaction do not apply. This assumption of huge, sometimes incomprehensible, gaps tends to combine with the common

[4] HBS Case "Commercial Capital S.A. (B)" (2000): 3.

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western conviction that the realities of a free market economy allow for "one best" blueprint for success and the sooner the local partners' ways of doing things are ironed out to fit this blueprint the better. This often results in Westerners finding themselves unable to cope with local ways, and end up capitulating (Longenecker 2001; Longenecker/Kotchetov1997).

By acting towards Locals by the same principles that govern business interactions at home one can avoid confusing equivalence with capitulating to local ways. And just as happens in interaction with another western businessman, so also in interaction with the Locals, understanding local priorities and concerns does not mean that one needs to agree to courses of action which one deems to be inappropriate. Quite the contrary. In a relationship of equivalence the Westerner is on solid ground for productive debate on issues on which there is disagreement. To do otherwise would be seen as patronizing. Thus, it would be contrary to the spirit of equivalence for Westerners to pretend that all local practices are just as effective as the western ones when it comes to adding value to a free market enterprise. The fact remains that in a wide variety of business matters, western practices and understandings are more effective than the ones prevailing in the region. A mindset of equivalence requires that awareness of western strengths should be accompanied by awareness that there are many areas in which Westerners have much to learn from Locals and that local expertise has a major part to play in overcoming the inevitable hurdles of the volatile local business environment.

A mindset of equivalence is difficult to adopt. Western businessmen often feel that it is enough for them to remember that they must "respect the local culture". Often, however, such "respect" is not genuine. Therefore it remains shallow and goes hand in hand with condescending attitudes, which invariably causes deep offense to Locals and backfires badly. The West has a long tradition of feeling superior to the rest of the world, most particularly in the areas of economic and political institutions and practices. It is not easy for western investors or/and managers to be self-critical about their own feelings of superiority and come to feel that their counterparts in the parts of the world whose own economies so palpably "failed", have anything to teach them in the way of running business. Westerners must be prepared to meet deep suspicion by Locals who carry a heavy load of negative experiences as well as preconceived ideas and persistent stereotypes about western arrogance. The very fact that Locals are placed in the position of having to learn and adapt to western technologies, methods and procedures tends to intensify their feeling of intimidation. **CC** deals with this by substituting "outright instruction" with "indirect know-how transfer". A regular practice of **CC** is that local managers who visit Athens on a business trip are invited to participate and make their inputs in regular committee meetings routinely conducted at the parent company. In this way, these managers experience management instruments and procedures regularly applied within

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CC. Such and other indirect means of transferring knowledge have proved particularly effective as they provide a learning context in which the local manager feels as a true participant rather than a passive knowledge recipient.

Management Tools for Reinforcing the Principle of Equivalence

Over the years, **CC** has relied on a few key management tools to reinforce the principle of equivalence. These are the alignment process, the joint task force, the careful "what-how" distinction, and sensitivity to ambivalence and fears. These practices require a substantial resources investment, but their importance is immense. They function as contexts in which equivalence becomes a day-to-day reality for both Westerners and Locals. The following sections offer a closer look at these management tools and their application in the region.

Alignment. Alignment is a dynamic process in which members from different companies or departments that are assigned to work together on a common project reveal to each other where their interests are in conflict and where their interests coincide. Once a shared understanding is achieved, they explore how divergent interests can be accommodated in order to maximize on the common interests. Alignment of this kind is essential before funds are committed to an investment. Central priorities, expectations of each side from the investment and from each other, as well as implementation plans and decision-making procedures require careful alignment before committing to the investment (Wright et al. 1998). This alignment process is a standard practice in the western business world. The difference with investments in the region lies in a) the probability of having disagreements on priorities encountered during the alignment process and b) the level of risks incurred if "shortcuts" are resorted to and an investment proceeds before the loose ends in these areas have been tied up (Al-Khalifa/Peterson 1998).

Disagreement on priorities is more likely to occur between Westerners and Locals than between partners from the same business environment. For example, Westerners and Locals tend to have different priorities regarding the timing of profit-taking: typically, Locals are pressed for quick returns while Westerners usually take a longer-term view (Michailova 2000). Failure to pinpoint such divergences at the pre-investment stage can create trouble once the new enterprise gets established. Alignment requires that the cards are put on the table by both sides as a basis for negotiation. This is easier said than done. While in the West misunderstandings, hidden agendas, politics and ego-involvements are played out inside the negotiation arena, in the region the major alignment work needs to be done prior to the negotiations. For successful pre-investment alignment, negotiation around central issues (like ownership shares) should be regarded as the final phase of a protracted process of mutual familiarization. Thus, an earlier alignment stage based on informal interaction is needed before a contract is formally articulated.

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Another feature that characterizes investments in the region is the level of risk involved if alignment is not secured. Regardless of how positive the feasibility study for a prospective investment may be, proceeding before genuine alignment with Locals has been reached is likely to prove costly. The temptation to proceed fast can be considerable, particularly since the region offers excellent prospects to early movers (Puffer et al. 1998). When comparable situations arise in mature markets, it may be wise to opt for a quick agreement. However, in **CC**'s experience, such optimism has proven to be perilous when investing in transition countries. For these investments the dilemma between the risks incurred by cutting corners on alignment and the risk of losing a golden opportunity is a false one. In one of its investments **CC** failed to spend enough time on aligning investment priorities with a prospective Russian majority partner acting as General Manager. As a result **CC** failed to assess correctly the tenacity of this partner's resistance to allocating funds for anything other than to boost production capacity. The Russian partner focused on preserving his full decision-making power and on increasing production while **CC** focused on sales, brands, logistics and profits. The company's profits suffered as the Russian partner's intransigence undermined **CC**'s efforts to transfer value-adding managerial know-how. Altogether, the cost of saving time on the alignment process proved high indeed. The steps taken in order to align after the event were of some help but the gap could not be closed. Finally, **CC** concluded that this partnership simply should not have happened.

Joint task forces. The use of joint task forces is common in the West: when a project requires the cooperation of persons from different departments within or between enterprises, managers and/or experts get together in order to provide relevant input to the final decision-makers. Joint task forces are highly needed in a cross-cultural context where the cooperating sides cannot take for granted the existence of shared understandings, common frames of reference and a common terminology. Often, however, western businessmen ignore this standard management tool in their investments in the region. Often western managers tend to limit local input to asking for specific information, which they regard as relevant to solving a problem. Westerners then process this information without drawing Locals into a Joliet decision-making process.

The use of joint task forces is a decisive step away from a hierarchical mode of thinking into the mindset of equivalence as it places the Locals in the center of problem-solving. Using joint task forces can break the vicious circle of distrust that is expressed in the following causal link: "you do not trust me enough to allow me to participate genuinely ⇒ hence I do not know what the decision is really about ⇒ hence I do not trust you ⇒ hence I also give you only part of the information you need ⇒ hence you increase your distrust of me". Titan addressed this issue in the following way: The composition of the board was designed to reflect continuity with the previous board to better assure the

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cooperation of the local managers and employees. Yet there were major changes between the old and the new board. Under the communist regime, the board had been "decorative", meeting monthly mainly to rubber-stamp the management decisions. The new board, in contrast, was hands-on and it genuinely influenced the operation of Titan. A member of the board both before and after the Titan reorganization remembered being surprised that the new board succeeded in finding a common language for all the different interests around the table. Each member was allowed to challenge a decision and contribute within the framework of her/his particular competence. Thus decisions were reached when consensus among all members of the board had been achieved"[5].

The joint task force constitutes a tangible proof that Westerners believe in the value of local input. Procedures must be established to ensure that local participants are encouraged to voice their ideas and concerns. If care is not taken to counteract tendencies of Westerners to take the lead and the tendency of Locals to keep their views to themselves, this management tool can turn sour and confirm Locals in their preconceived ideas that western "democratic" rhetoric is just a sham. **CC** has found that it is not enough during a meeting to ask generally for input. If this is done, most local participants will probably hold back. It has been found that Locals respond readily provided that they are addressed individually for a view on a specific issue.

The "what-how" distinction. If alignment and the joint task force are tools that can bridge Locals and Westerners, the "what-how" distinction is a tool to separate principles from procedures, ends from means. The "what" represents the values, policies and best practices which constitute the main elements of the successful track record of the investor's company. These elements are non-negotiable because they are giving the company its distinctive identity. The "how" refers to modes of decision-making, communication lines, management styles and procedures which are adopted to optimize effectiveness in a specific business environment. Although it is not easy to decide whether a certain issue comes under the heading "what" or "how", grasping this difference is a must for successful investors in the region.

Over the years **CC** has been exposed to the relevance of the what-how distinction. The company has been continuously experiencing that Locals are often very concerned about power loss. Power, as traditionally conceived by Locals, has to do with doing things one's own way, on a unilateral basis, a feature that is an unacceptable "what" in the **CC** context. In order to manage effectively a competitive market-oriented company, **CC** enlists Locals into top management teams as a genuine multilateral decision-making body. **CC** realizes that succumbing to the convenience of cutting corners on the "what" in the name

5 HBS Case "Commercial Capital SA" (B), op.cit.: 2.

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of adjusting to local conditions is self-defeating. A successful company adds value by doing what it knows best and this holds anywhere, i.e. in the region as much as in the West. Any deviation from this principle will jeopardize the investment. Grudging compromises on these issues usually gets the worst of both worlds: Westerners may give in too little to satisfy Locals and still give up too much of what is needed for the success of the investment.

Just as important, on the other hand, is the flexibility regarding the "how". Many western investors fail to cultivate the flexibility required when it comes to what particular means to apply in order to reach a certain "what". In fact, the very same "what"s which in a mature market dictate a specific set of "how"s, dictate very different practices in post-socialist countries. It would be wrongheaded for Westerners not to utilize the insider know-how that Locals command on getting things done under their own business environment. The basic maxim drawn on the basis of **CC**'s experience could be expressed as follows: Be adamant on the "what" and maximally flexible on the "how". Hence, the what-how distinction also serves as a guide for allocating responsibilities and authority: the "what" is defined as the prime responsibility of the Westerners while the "how" as the key responsibility of the Locals.

Westerners and Locals often carry different mental maps of "what" and "how" areas. The business cultures of countries in the region have been shaped under conditions in which the realization of objectives was fraught with multiple difficulties and barriers. Add to this the instability of the business environment at present and it is hardly surprising that maneuvering and tuning into the moment's opportunities and threats are at a premium in local managerial thinking. In circumstances where ends were so hard to realize, a "whatever works"-philosophy tends to become dominant. From where the Westerner stands, however, actions which Locals perceive as means to an end may well appear as transgressions of his or her guiding principles and best practices. Disagreements as to where the "how" stops and the "what" starts are particularly common when it comes to taking risks.

Westerners need to think long and hard about the principles which constitute their "what" and where to draw the line between "what" and "how" in each particular situation. The aim should be to limit the "what"-area as much as possible, however, without compromising on truly important issues. In view of the significance which Locals attach to being entrusted with "how" issues, much can be gained by Westerners defining these issues as broadly as possible. Sensitivity to the what-how distinction has proven most valuable in identifying unbridgeable gaps. Indeed, conflicts on what-how issues can touch on very fundamental concerns. A joint effort to clarify these conflicts may reveal fundamental incompatibilities, which no amount of bridging work can resolve. Thus, applying the what-how principle can help Westerners decide whether divergences are important enough to abandon the venture.

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Sensitivity to ambivalence and fears. Another management instrument **CC** has developed addresses ambivalence and fears. A major ambivalence is associated with how Locals often tend to interpret western investments: Locals' admiration of western technology and expertise is tinged with envy and hostile suspicion. This results, as **CC**'s experience reveals, in a high level of defensiveness with which Locals enter their cooperation with Westerners. This defensiveness is exacerbated by habits of being suspicious of all outsiders, a mechanism acquired to cope with the adversity of Soviet rule. The long years during which the capitalist market has been ingrained in Locals' minds as evil and exploitative and as the source of the communist world's problems and hardships cannot be overcome within a decade of intensified business interactions. This makes imperative for Westerners to think of themselves as business guests in a sovereign country who are looking to establish business relationships for mutual profit, while mindful all the time that they are not on their own turf.

A number of fears, both on Locals' and Westerners' side, come into play in the process of their interactions. Local senior managers tend to be largely occupied with securing and retaining personal power (Holt et al. 1994; Ralston et al. 1997). Therefore they are afraid of losing power in a cooperation with a western investor even though they recognize that such a relationship is the surest road to meet their financial interests. These fears are, in all likelihood, more intense than Westerners are accustomed to and they should create opportunities to get these concerns into the open where they can then be addressed in a forthright business-like manner. The idea should be to enable Locals to grasp that, in a market economy, the greatest security comes from profitability, not from power over others *per se*.

Westerners bring fears into the relationship, too. One of their abiding concerns is that, once they commit to the deal, they will get cut off by the Locals from receiving accurate and timely information about the state of the business. They fear that they will not hear about problems until it is too late to solve them. Without a steady flow of information, Westerners begin to fear that the Locals may take off with their capital. The task of bringing such fears into the open is not merely a matter of laying out one's cards and expecting the other side to do the same. As mentioned earlier, opening up presupposes some degree of trust.

CC'S Eight Steps Model

The **CC** model for assessing and expediting investments prescribes a sequence of eight steps that a western investor needs to complete before final decision of partnering with a local enterprise is taken. **CC** has tried to follow this process for all its prospective investments, regardless of whether the idea was to establish a joint venture or full ownership. The eight steps which are presented below are followed in a particular sequence. If serious difficulties are encountered in completing a step to **CC**'s satisfaction, it is taken as a warning

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signal that some important problem or deep barrier is being ignored. If despite informed efforts, these difficulties continue to stand in the way of satisfactory completion of the step in question, **CC** does not undertake the next steps and instead, it abandons the project. This investment principle is referred to in the company as “complete or abandon”.

Step 1. In addition to the due-diligence financial review, evaluate the trustworthiness of potential local partner firms, their owners and senior managers, through reliable informal “chain-of-trust” networks.

CC has established chain-of-trust networks in every country of operation: it identifies an experienced local executive of judgment and integrity who will have knowledge of other trustworthy individuals in the area and with whom **CC** cultivates a trust-based relationship. This becomes the chain-of-trust that can be mobilized in order to locate trustworthy people with the needed skills and knowledge. In the milling situation, **CC** used its Romanian chain-of-trust to locate the Bucharest mill and connect effectively with the decision makers of the National Agency for Privatization and the State Ownership Fund.

Step 2. Get to know the selected local counterpart on a personal, informal basis. See if a personal bond based on common interests and mindsets can be forged. Remember that in terms of the local culture of transition countries, trust is understood in the context of personal intimacy; “becoming friends”, as it is usually expressed.

When **CC** learned that the Romanian officials in charge of the privatization of the Bucharest mill were on a state visit to Athens, **CC**, through their chain-of-trust connections, arranged a lunch for them hosted by the chairman of **CC**’s parent organization, the Emporiki Bank as well as top **CC** and SGM officials. The lunch was served at the headquarters of the Bank. Furthermore, **CC** asked the managing director of SGM to take the Romanian officials on a conducted tour of their works[6]. These visits served a twin purpose: a) they demonstrated to the Romanian officials that **CC** commanded the financial resources and the technical and managerial expertise required for taking over the production and distribution of bread in Bucharest and b) they conveyed to the Romanians that the Greek company understood the value of personal contact in business dealings. The interaction was informal: although questions, views, intentions and expectations about the privatization of Titan Mills were expressed, there was no formal agenda. The Romanian officials got a feeling of the Greek directors and managers and their companies. The Greek managers got the opportunity to demonstrate their familiarity with the Romanian business environment and to show that they were able to look at issues from a Romanian viewpoint. The fact that the chairman of the Emporiki Bank hosted the lunch

[6] HBS case “Commercial Capital S.A. (A)”: 14-15.

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indicated the bank's commitment to support and fund **CC**'s investments in other Romanian enterprises as well. Thus this visit convinced the Romanians of the serious long-term interest of **CC** and of its abundant resources.

Step 3. Define the qualifications required for the CEO of the enterprise and spend the necessary time to find a person who meets these requirements.

Through trial and error **CC** have come to profile the combination of qualities that qualify a person for such a job. Profound knowledge of local mindsets, priorities, fears and skills acquired through solid hands-on experience in local enterprises needs to be combined with thorough understanding of the practices and business culture of western enterprises and proven ability to operate effectively in the western market (Aguilar 1994). **CC** refers to such bicultural persons as "transformers". The authority of the general manager and her/his ability to elicit staff loyalty is greatly enhanced if both Westerners and Locals recognize her/his knowledge of their world. Furthermore, effective interaction is enhanced by the transformer skills to perform the delicate work of translating one side to the other, casting one side's objectives and concerns in language that makes sense to the other side. These skills can make all the difference not only when impasses are reached, but also in helping Westerners build long-term relationships with Locals.

An example of a transformer turning a problematic investment into a project with a future is furnished by **CC**'s experience in an investment that they entered as minority partners in a Russian pasta factory. The Russian partner's determination to resist any transfer of **CC**'s managerial or other expertise threatened to bring **CC**'s investment to ruin. Then **CC** decided to entrust the communication with the Russian partner to the head of the **CC** Moscow office. The Russian partner became less defensive and has made significant steps towards integration with the **CC** know-how and best practices once the western ways were mediated to him through a compatriot whom he esteems and considers as trustworthy (Holden/Cooper 1994). The investment is well on its way.

Transformers may be sought either among expatriates with extensive working experience in the country where the investment is located or among managers of local origin who have a record of successful management in a western-owned or western-controlled company. Westerners, who are used to operate in an environment with no shortage of qualified people for any job, may decide to proceed with an investment without being worried about whether the right general manager has been located to begin with. This is a serious mistake. Though the pool of transformers is certainly widening in transitional countries, it remains relatively narrow. Westerners often find themselves under pressure to compromise on the qualifications that they demand but this proves expensive in practice. The chains-of-trust are invaluable for solving some of these problems.

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Step 4. Take time, as needed, to reach agreement on the strategy to be employed to add value.

In Titan Mills the strategy was to add value rapidly primarily by redeploying about half of the employees from their current production to work on other assignments. The plan called for installing a corn flake mill that could make good use of most of the otherwise redundant employees. Other workers who wished to expand their skills would be offered the training needed to fill the newly created sales and finance departments that Titan needed in order to grow.

Step 5. Make sure that you and the Locals can agree on the what-how distinction: “what”-type of market-oriented practices should be introduced, and “how”, given local conditions, could such practices be implemented.

While no detailed map needs to be drawn in advance about the what-how distinction, at this stage it should be possible to get a feel for the chances of these issues being worked out. An issue **CC** has been continuously exposed to is that managers in the region find it hard to accept Westerners’ insistence on regular independent audits as part of their “what”. Local managers tend to interpret this requirement as a lack of trust in them. **CC** has in such cases found it helpful to take these managers to Athens and show them how audit requirements are being applied to every one of their investments on a standard basis. The Greek managers explain to Locals that such audits are required by law of all Greek companies being traded in the Greek stock market and of all of their subsidiaries.

Step 6. Reach agreement on how to address the primary fears of both parties.

The Titan Mills case provides a good example of how **CC** addressed different local stakeholders’ fears. The government officials were afraid that the western investors might decrease the quality of bread, the basic daily food of the local residents. This would put them in an impossible political situation. **CC** guaranteed this would not happen. The local managers in the mill were afraid of losing their jobs or their rank in the management hierarchy. **CC** undertook that managers who were transferred within the organization would be given jobs of equal rank to their previous one. Workers were afraid of being laid-off because they were aware of the overstaffing of production jobs. **CC** decided not to reduce employment over the first three years of its operation and backed this commitment with a concrete plan for its realization. Such steps relieved the Locals’ minds of anxieties that would have otherwise blocked rapid learning of new ways of doing business.

Step 7. Reach agreement on what inputs to the joint enterprise are to be supplied by each party.

This includes knowledge resources as well as capital and physical resources. This step also involves spelling out in detail the basic division of labor and

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responsibilities between the partners that has to be agreed upon in the negotiations.

Step 8. Reach agreement on how any gains from adding value will be shared between the Locals and the western investors.

CC's general rule in this regard is that such agreements should be consistent with the value of the inputs of each party.

The **CC** approach described above goes against many of the assumptions which inform the investment decisions of Westerners. A dominant tendency among western investors in this region is to go into the field with a generalized expectation that "all sorts of problems will arise". In this light, western investors tend to take the line of least resistance, solving the problems that are soluble and hoping that the momentum of the new enterprise will actually help solve issues and differences which could not be sorted out earlier. Contrasted to this, **CC**'s complete-or-abandon strategy might sound pessimistic, faint-hearted and going against the mindset of equivalence. The complete-or-abandon approach is actually a logical extension of the principle of equivalence: **CC** applies to the transition economies an insight which has guided decisions about business cooperation in the West, namely that when all is said and done, the particular company cultures of two prospective partners as well as their agendas regarding a proposed cooperation, may be too incompatible for successful mutual adjustment. It is precisely because **CC** has learned to respect the profound roots and distinctive logic of local contexts that **CC** recognizes that all cases are different. What is negotiable with one enterprise may not be negotiable with another. **CC** acknowledges that western ways can be just as inflexible and over-determined by long-standing traditions. The company also recognizes that there may indeed be gaps which the best will in the world cannot bridge. Neither does the complete-or-abandon strategy in any way lead a company to give up a "golden opportunity" for the sake of caution. On the contrary. The eight steps presented above offer investors a framework for clarifying issues, pinpointing specific obstacles or disagreements and sorting out what is and what is not doable. It goes without saying that pulling out should only be taken after all efforts to resolve issues have failed.

Conclusion

The present paper offered a framework for how western investors and managers can establish effective working relationships with Locals in the context of the countries of the region. The paper took a starting point in the decade-plus experiences of **CC**, a leading Greek venture capital firm in the Region and, therefore, the findings and conclusions should be taken with caution when applying to contexts different from the ones discussed in this paper.

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We argued, as opposed to the prevailing existing literature, that Westerners can establish effective working relationships with local managers and employees without changing their own basic tenets about business practice. For instance, western investors should use the same planning elements as would be suitable in investments in the West and/or in joint ventures with western partners. This involves thinking out the mission of the newly formed enterprise, its immediate goals, the organizational form that would work effectively and the needed organizational culture. This is done as a matter of course for investments in western markets and it can also be applied in the region. It is a mistake to believe that differences with Locals are so vast that western rules of business interaction do not apply.

The cornerstone of a successful approach, we claimed, is the principle of equivalence which can be nurtured through alignment, joint task forces, the what-how distinction and sensitivity towards ambivalence and fears. Applying those essentials in practice has led **CC** to the development of an action model of eight steps that a western investor needs to complete before deciding about partnering with a local enterprise. The steps are sequential. Failing to complete a step to **CC**'s satisfaction is taken as a serious warning signal that some important element of the "inner logic" of the investment is not being dealt with. If despite informed efforts, these difficulties continue to stand in the way of satisfactory completion of the step in question, **CC** does not undertake the next steps and instead, it abandons the project.

The system of mindsets and management tools we have presented is not meant as a tool kit for investment-made-easy. There is nothing mechanical about it at all. The **CC** prescriptions for action can only be effective if Westerners are prepared to critically examine the baggage they bring into their interactions with Locals and to cultivate ways of thinking and acting which may entail radical changes in their mindset, sensibility and behavior. The **CC** methodology can be of value only if understood and applied as an ongoing unlearning and learning process.

Much depends on how open, tolerant and flexible Westerners can be in their everyday dealings with Locals. The ability to assess what is good enough and the willingness to settle for that, work for the Westerner better than rigid perfectionism. Therefore before venturing into an investment a western company would do well to satisfy itself that its own company culture can truly accommodate flexibility of this kind or, to put it in the terms of the **CC** methodology, that it has the potential for true alignment with enterprises in the Region. The same applies to individuals. Some Westerners are not suited for interacting with Locals effectively. Perhaps a good rule of the thumb for a Westerner intending to work in the region is whether or not she/he has a spontaneous sense of being in contact, a hard to explain sense of affinity with people and places and whether she/he feels intrigued by the challenge. If

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entrusted in such hands, the **CC** methodology can provide a major resource for the necessary, greatly taxing but potentially rewarding work of building long-term and effective relationships that can make Westerners and Locals engage and stay in a creative cooperation.

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