

Master's Thesis

When Management Myths Collide? Case Study of Management Control Systems
in Two Norwegian Companies, Operating in Russia

BE304E – Management Control

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Abstract

In this case study I have described two companies: Norwegian-Russian joint venture Rossnor and Reinertsen NWR, founded as a foreign direct investment of a parent company. I have analyzed management control systems of both companies with focus on challenges, arising in cross-cultural settings.

This research identifies and questions differences in myths of Russian and Norwegian management and shows how they can be resolved through the use of management control. Pursuing the goal of establishing links between different types of myths, challenges for managers and design of management control system a model of process relationship has been developed.

The contribution of this model is that it emphasizes the necessity of two types of organizational learning as tools for reconsidering beliefs and assumptions of managers and redesigning management control systems, based on changes and new myths, with purpose to handle new challenges. Case of Rossnor proved that double-loop learning is critical for joint ventures and should supplement single-loop learning.

Foreword

Master's Thesis is an obligatory part of the Master of Science in Business program at Bodø Graduate School of Business at the University of Nordland. This research project, which is a final assignment for Master students, is being written during the last semester of studies and equals to 30 student points.

In this work my major objective was to explore the managers' experiences and opinions in relation to the challenges of running Norwegian companies in the Russian Federation. In this respect I've studied two relevant companies. The first one is a Russian-Norwegian joint venture Rossnor, which was set in Saint-Petersburg in 1992 as a Russian subsidiary of Rapp Marine Group. The second company is Reinertsen NWR, a fabrication and engineering departments of Reinertsen AS, situated in Murmansk.

I'm very grateful to managers of Rossnor, Andrey Polyakov and Aleksandr Kurganov as well as Svein Frode Grande and Tore Suul Grande from Reinertsen NWR. They provided me with a plenty of useful information about these companies, they've been working for, and gave me unique documents, reports and charts, which aided me a lot in my Master's Thesis. A special appreciation deserves a prime mover of the establishment of Rossnor – Bjørn Aaselid, who has spent a lot of his time on telling me the history of Rossnor.

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Abbreviations

BM – Board of Directors Meetings

CEO – Chief Executive Officer

EPCI – Engineering, Procurement, Construction and Installation

ETC – Eastern Trade & Consulting AS

FDI – Foreign Direct Investment

HSE – Health, Safety and Environment

LLC – Limited Liability Company

LNG – Liquefied Natural Gas

MC – Management Control

MCS – Management Control System

NCS – Norwegian Continental Shelf

NWR – North West Russia

TCM – Technology Centre Mongstad

QA – Quality Assurance

USD – United States Dollar

USSR – The Union of Soviet Socialist Republics

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1. Introduction

1.1 Background

Management practices and processes differ across national boundaries. Those managerial procedures, rituals and behaviors that are acceptable in one culture may be counterproductive or even unacceptable in another. As managers increasingly find themselves working across cultures, the need to consider and understand these differences has become increasingly important (Steers, et al., 2010; Joynt and Warner, 2002; Schneider and Barsoux, 2003).

The growing internationalization of business has implications for management control (MC) in joint ventures. Research on cross-cultural management control systems (MCS) (Harrison and McKinnon, 1999; Pothukuchi et al., 2002) argues that national culture influences the norms and values as well as behaviors of individuals, operating in these systems. Managerial attitudes and behaviors are shaped by cultural and psychological underpinnings that vary from country to country (Steers, et al., 2010). This may form challenges for managers of joint ventures and other types of multinational companies. Thereby, the need to recognize the environment in which organizations exist is critical (Otley et al., 1995).

There have been studies, showing that Russia and Norway are two countries with completely different cultures (Svennevig and Isaksson, 2005; Mineev and Bourmistrov, 2010). Norwegian company, operating in Russia, is an example of operating in another managerial environment, with its own formal and informal rules, beliefs, frameworks, special business mentality, etc. Let's call these as myths. In this case, one can hardly ever take an existing MCS and import it into another social environment without changes. Social systems are in a constant development, myths are altering together with them. In this respect there is a continuous need in studying the ways of handling challenges, induced by differences in myths and mechanisms that managers use for exercising control in joint ventures, identifying what functions and what does not in the different contexts.

Norwegian managers, as well as Russian have different a priori myths, like established rituals and managerial patterns, based on previous experiences, which are influencing the way they perceive the process of management (control). When two different contexts meet in a joint venture, or when a company enters a foreign market, those myths collide, and this leads to different outcomes.

1.2 Motivation and Purpose

Motivation for this research is twofold. First, there is a lack of research in the field of MC in Norwegian-Russian context, addressed to the differences in management beliefs. Therefore, it

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seems important to identify the most distinctive myths of managers of both nationalities and to show what kinds of challenges they create for MC and what kinds of solutions suggest.

Practical motivation for the research is to provide practitioners, e.g., Norwegian companies, planning to establish themselves in Russia, with the applied knowledge, gathered from two unique cases, investigated in this Master's Thesis. To point on managers' experiences in resolving differences in myths.

In my research I decided to focus on the case of "negative experience." It's not an easy task to get an access to such cases. Much more managers prefer to talk about success, describing what they have achieved, rather than lost. It can be fairly easy to find a story of success, but not so easy to repeat it by another organization. On the contrary, if one knows a bad experience of a company in the same context, when he sees mistakes made by it, the challenges faced and fruitless attempts of finding ways out, it is of a great practical value. In my opinion, it's easier for a firm to avoid "stepping on the same rake" as another company has already done, when the facts are available and reasons for that are analyzed, rather than to copy the story of success. Showing at least one way of how managers should not do, can save company from undesired consequences.

I was lucky to get access to the unique case of Norwegian-Russian joint venture – Rossnor, which has been operating for almost 20 years, but recently was shut. To my mind, it's not sensible to call all the experience that this company had as a negative, because the firm managed to survive in Russia during long and turbulent times and had much positive in its history as well. But the fact that the company failed to continue its operations in Russia and Norwegian parent was forced to search for the alternatives in other countries, in general, allows identifying this case as a story of negative experience.

In order not to be too pessimistic and to be able to draw a more detailed picture of different management myths and challenges the case of Rossnor is added and opposed to another, a newer one, Reinertsen NWR, which came in Russia almost 15 years later and now is on the peak of its operations. It seems beneficial for the research to incorporate two cases, not leaving the reader just with one, but contrasting the two, showing the similarities and differences between them. To my mind, this also helps in identifying what challenges, faced by Rossnor were applicable for Russian business and society as a whole, and what were just specific for the case and personal for the key actors.

Another important aspect for choosing Rossnor as a central case of the thesis is that it allows studying managerial practices in a long-term view. Due to the company was operating in Russia during two decades and then has left, the researcher can follow how the managers have been

learning from their mistakes, how they were adapting to conditions of the changing environment and what impact it had for the design of MCS.

1.3 Research Context and Research Question

The research is represented by a case study of two Norwegian companies, which established themselves in Russia at different time, but with similar objectives. Rossnor, Russian subsidiary of Rapp Marine Group, was founded in 1992, while Reinertsen NWR, a fabrication and engineering divisions of Reinertsen AS, was established in 2005. Both companies came to Russia with a certain goal to work on the internal Russian market, but this initial plan has not come true. Instead of this, companies have found alternatives in order to survive in Russia.

The initial idea behind the creation of Rossnor was to bring Rapp Marine's unique experience of producing winches and deck equipment to the Russian market in the beginning of 1990s, after the collapse of the USSR, when a new country, as they thought at that time, needed renovation of its fishing fleet. Unfortunately, this plan was never put into practice, but during almost twenty years of operations Rossnor has been producing ship equipment at facilities in Saint-Petersburg and exporting them to Rapp Hydema in Norway, where they were sold to final customers.

Reinertsen NWR was established in Murmansk via foreign direct investment (FDI), having bought a factory just outside the Murmansk on the bank of the Kola bay. The primary goal was to enter Russian market through participation in the development of the Shtokman liquefied natural gas (LNG) field as a supplier of services and products. However, this huge project is still "sleeping", but Reinertsen have found business alternatives. The Russian subsidiary produces equipment for Norwegian oil and gas companies as well as other customers in Norway and recently has been increasing its production capacity. To give an example of their growth, in 2007 there were about 80 employees, but in the beginning of 2011 there were around 450 people, working at company's Russian site.

These two organizations were in a challenging situation, facing a complicated choice, whether to leave the market, due to unrealized ambitions or to continue operations by being "unintended production outsourcers" for their Norwegian parent companies. Both companies have made the second choice.

Thus, this study incorporates two Norwegian companies, with two different internationalization strategies, which entered a country, with completely different culture, legislation, business behavior and managers with differing beliefs. It must be a challenging task to operate in such environment.

Having studied Management Control for two years, I believe that it is critical for the company's performance. MCS should assist managers in exercising control over companies.

In the case of joint ventures, besides challenges, similar to all organizations within the same industrial context, lots of other problems are added, which are caused by cultural, physical and other distances. In this study I'd like to focus on such challenges and solutions to them. The research question of the thesis is as follows:

Challenges for Management Control in Norwegian companies, operating in Russia: How managers interpret and handle them?

1.4 Outline of the Master's Thesis

In this section the following structure of the Master's Thesis is depicted.

2. Frame of Reference

Frame of reference is a "lens", which are used for looking at the empirical findings in order to answer the research question. In this chapter I'm presenting several theoretical perspectives, which serve as a framework for the discussion part of the thesis. I've selected theories that address to issues of MCS in a cross-cultural settings, organizational learning, design and mobilization of MCS and others.

3. Method

In this part I'm describing my road in this thesis, from the initial research idea until the finishing touch. Explanations on what kind of decisions have been taken during the research process and which methodological dilemmas have been faced by the author are main subjects of the third chapter.

4. Empirical Findings

Background of Rossnor and Reinertsen NWR are the central part of the fourth chapter. Here I'm addressing such issues as planning and control procedures in the Russian-Norwegian setting and also identifying different kinds of challenges, faced by managers of these companies.

5. Discussion

In this part I'm discussing how differences in myths of management were creating challenges for MCS and, thereafter, how they were resolved. Then, I proceed to the analysis of how MCS was designed in order to handle the challenges. Finally, I argue that organizational learning is critical for MCS to be able to handle cross-cultural challenges.

6. Conclusions and Implications

In the last part of this research I'm presenting major analytical findings, make overall conclusions and implications, and suggest topics for the further research.

2. Frame of Reference

Joint venture as well as any other international company¹ incorporates at least two different types of companies with people, belonging to different cultures. National (and also organizational) cultures are critical variables, influencing patterns, rituals and procedures in management control and interactions between key players. It is therefore can create tensions in terms of conflicts, misunderstandings, distrust, etc., and as a result have a negative impact on performance.

In joint ventures it's important that MCS is designed in such way that, besides other challenges, cultural tensions are moderated. So, the question is what kind of theoretical framework will better suit for identifying what is MCS, which cultural challenges are faced by it, and how it can learn to resolve them. Pursuing these objectives I've selected the theoretical frame of reference for my research.

The chapter is structured as follows. At first I'm addressing to the concept of management control, give different definitions, discuss its functions, associated activities, as well as its place in the organizational hierarchy. Anthony's (1965) approach is used as a basis for introducing this concept. In parallel to this the notion of management control system is introduced. Then the question arises: how MCS can be conceptualized? In order to answer it Simons' (1995) framework will be used. The goal of the next section is to investigate the culture, and particularly its affect on the MCS, operating in multinational environment. This is done by review of the relevant literature, conceptualizing culture and discussing what kind of challenges it creates for management control. It is also interesting to find out how MCS can be designed to become a mediator in cross-cultural tensions. Two final sections aim at explaining how organizations, "in theory", do learn and adapt to the changing environment as well as emphasize the importance of MCS, being not just designed and then left adrift, but also mobilized, while organizations pursue their objectives.

2.1 The place of Management Control in the Organizational Hierarchy

This use of the term "management control" dates from the pioneering work of Robert Anthony, who has been a Professor of Accounting at the Harvard Business School for many years. Anthony (1965) saw management control as being sandwiched between the processes of strategic planning and operational control, which can also be superimposed upon an organizational hierarchy, as shown on the figure below.

¹ The terms "joint venture", "multinational company" and "international company" are used interchangeably in this chapter, because the point is to highlight its multi-cultural character.

Frame of Reference

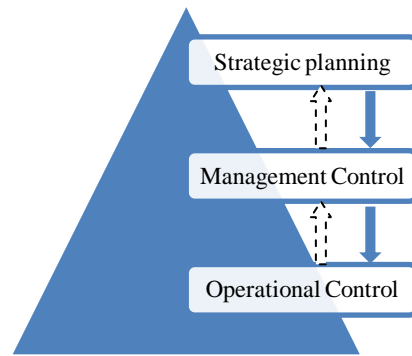


Figure 2.1 – The position of a management control within an organizational hierarchy
(Ashton et al., 1995)

The highest level, *strategic planning* is concerned with setting goals and objectives for the whole organization over the long term. By contrast, *operational control* is concerned with the down-to-earth activity of ensuring that immediate tasks are carried out. *Management control* is the process that links the two. Global goals have to be broken down into sub-goals for parts of the organization; vague statements of future intent have to be given more substantive content; long-term goals have to be solidified into shorter-term goals. The process of management control is designed to ensure that the day-to-day tasks performed by all those involved in the organization come together in a coordinated set of actions which assist overall goal attainment. This can be seen primarily as the planning and co-ordination function of management control (the downwards arrows on the figure 2.1). The other side of the management control coin is its monitoring and feedback function (the upwards arrows on the figure 2.1). Regular observations and reports on actual achievement are necessary to ensure that planned actions are indeed achieving desired results. Thus, hourly, daily, weekly, monthly, quarterly and annual feedback cycles are necessary to enable timely corrective action to be taken when things do not go as planned (Ashton et al., 1995; Otley, 1980). Let's now have a closer look at the Anthony's approach by subsequently going through all three levels, presented on the figure 2.1.

2.1.1 Strategic Planning

Strategic planning is the process of deciding on objectives of the organization, in changes on these objectives, on the recourses used to attain these objectives, and on the policies that are to govern the acquisition, use, and disposition of these recourses (Anthony, 1965).

Strategic planning is a process of the formulation of long-range, strategic plans and policies that determine or change the character or direction of organization. In an industrial company this process embraces planning that affects the objectives of the company; acquisition and disposition of major facilities, divisions, or subsidiaries; policies of all types, including policies as to management control and other processes, the markets to serve and distribution channels for serving them, the organization structure, research and development of new product lines, sources

of new permanent capital, and dividend policy; and so on. Decisions made at the strategic planning level affect the physical, financial, and organizational framework within which operations are carried on. Anthony (1965) argues that strategic planning combines two types of planning: choosing objectives and planning how to achieve them.

Anthony's strategic planning does not correspond to a long-range planning. Strategic decisions usually have long-range consequences, and often, a relatively long time is required to put a strategic decision into effect. However, the distinction between long-range and short-range (referring to time needed for formulating and implementing the plan) is not crucial to the distinction between strategic planning and management control. The long-range, short-range distinction has more validity in relation to the duration of consequences of decisions. Strategic decisions are often irreversible in the short run. The addition of one employee also, for instance, has long-run consequences, and the reversal of such a decision is not always easy. Series of such decisions can have, in total, significant consequences.

2.1.2 Management Control

The distinction between strategic planning and management control corresponds approximately to the distinction between "administration" and "management". Anthony gives an example of Tead Ordway's definition of these notions. "Administration is the process and agency which is responsible for the determination of the aims for which an organization and its management are to strive, which establishes the broad policies under which they are to operate, and which gives general oversight to the continuing effectiveness of the total operation in reaching the objectives sought" – believes Ordway (1951). He goes on to say that "Management is the process and agency which directs and guides operations of an organization in the realizing of established aims." In these terms, strategic planning is a process used in administration, and management control is a process used in management.

Perhaps, the first definition of management control is given by Anthony (1965:17). This classic definition argues that "*Management control is the process by which managers assure that recourses are obtained and used effectively and efficiently in the accomplishment of the organization's objectives.*"

Effectiveness relates to the accomplishment of the cooperative purpose. When a specific desired end is attained it can be concluded that the action is effective. *Efficiency* can be understood as the optimum relationship between input and output. The more units of outputs are obtained from a given input, the more efficient is the process.

Ansari (1977, in Wickramasinghe and Alawattage, 2007:126) argue that "*MC is organizational arrangements and actions designed to facilitate its members to achieve higher*

performance with least unintended consequences.” Wickramasinghe and Alawattage (2007) go on by considering MC as a programmed activity processed through budgeting, operating and measurement as well as reporting and analysis. MC refers to formal controls in an organization, such as rules, standards, operating procedures, budgeting, etc, which are contrasted to informal controls, such as “unwritten policies” (Langfield-Smith, 1977).

When differences between strategic and management levels of the organizational hierarchy are identified and the definition of the management control is given, I’d like to provide the notion of management control system.

Lowe (1971:5) gives a general definition of MCS:

“MCS is a system of organizational information seeking and gathering, accountability and feedback designed to ensure that the enterprise adapts to changes in its substantive environment and that the work behavior of its employees is measured by reference to a set of operational sub-goals (which conform to overall objectives) so that the discrepancy between the two can be reconciled and corrected for.”

Lowe (1971) stresses the role of a MCS as a set of control mechanisms designed to assist organizations to regulate themselves, whereas Anthony’s definition is more specific and limited to a narrower subset of control activities.

Since the management control process takes place within the guidelines of specified objectives and policies, and since these vary from one organization to another, it is inconceivable that a single MCS ever can be developed that will fit all organizations. A contingency-based research attempts to understand MCS within the organizational context. Academics doing research within this framework have been examining the designs of MCS that best suit the nature of environment, national culture, technology, size, structure, strategy and national culture (Chenhall, 2003; Otley, 1980). In the section 2.3 I’ll go into details and discuss the impact of national culture on MCS as well as other issues in the cross-cultural management control.

The MC process tends to be rhythmic. It often follows a definite pattern and timetable, which are repeated. In budgetary control, which is an important part of the management control process, certain steps are taken in a prescribed sequence and at certain dates each year: the dissemination of guidelines, the preparation of original estimates, the transmission of these estimates up through the several echelons in the organization, the review of these estimates, final approval by top management, dissemination back through the organization, and the reporting and appraisal of performance. The procedure to be followed at each step in this process, dates when the steps are to be completed, and even forms that are to be used can be, and often are, set forth in manual.

Although the general process of MC is a rhythmic, recurring one, specific actions are taken when some events occur, like promotion of a foreman, change of the price of a product, rearrangement of machinery and so on.

In contrast, strategic planning is essentially irregular. Problems, opportunities, and “bright ideas” do not arise according to some set timetable. The appropriate analytical techniques depend on the nature of the strategic problem being analyzed, and there is hardly any general approach that is of much of help in the analysis of all types of strategic problems. Few companies have systematic approach to strategic planning, but, on the contrary, the majority reacts to changes in their environment after they experience changes.

2.1.3 Operational Control

Just as management control occurs within a set of policies, derived from strategic planning, operational control is implemented within a set of well defined procedures and rules that are derived from both strategic planning and MC.

Operational control is the process of assuring that specific tasks are carried out effectively and efficiently. As with the distinction between strategic planning and management control, so also the distinction between management control and operational control is not entirely clear-cut. Anthony (1965) argues that the processes overlap and are interrelated. Operational control takes place within a context of decisions made and rules formulated in the management control process and to some extent in the strategic planning process and over-all performance in activities where operational control is applicable is reviewed as part of the management control process. MC focuses on the whole stream of ongoing activities, rather than on specific tasks. MCS report summaries, aggregates, totals, not specific items.

The focus of operational control is on individual tasks or transactions: scheduling and controlling individual jobs through a shop, as contrasted with measuring the performance of the shop as a whole, procuring specific items for inventory, as contrasted with the management of inventory as a whole, specific personnel actions, as contrasted with personnel management, and so on. Another important characteristic that applies to most activities that are subject to operational control is that these activities are capable of being programmed.

According to Anthony (1965) MC is more difficult than operational control because it has fewer “scientific” standards with which to compare actual performance. A good operational control system can provide a much higher degree of assurance that actions are proceeding as desired than can even the best MCS.

A management control system is ordinarily built around a financial core, since money is the only common denominator for the heterogeneous elements of inputs and outputs. Operational

control data are often nonmonetary. They may be expressed in terms of labor-hours, number of items, kilograms of waste, etc. Each operational control system is designed for a limited area of application.

Data in an operational control system are in real time and relate to individual events, whereas data in a management control system are either prospective or retrospective and summarize many separate events.

Operational control is essentially objective, whereas MC is essentially subjective. Operational control is objective in sense that it has to do primarily with activities for which the correct decisions can be objectively determined. At least conceptually, and often practically, a valid decision rule can be stated mathematically and programmed into computer. Management control is essentially subjective in that decisions in this process inherently involve subjective managerial judgment, and there is no objective or “scientific” way of determining the best course of action in given set of circumstances. The underestimation of the differences in nature between these two types of control may lead to mistakes, which are made when the designers of MCS view management control problems as if they were operational control problems. This can occur when the psychological considerations that are involved in the exercise of human judgment are not taken into account.

2.2 Management Control System as “4 Levers of Control”

Simons in his work “Control in an age of empowerment” (1995) raises a question of how managers can exercise adequate control in organizations that demand flexibility, innovation, and creativity. He suggested four levers of control in modern organizations. They are diagnostic, beliefs systems, boundaries and interactive systems.

“*Diagnostic* control systems work like the dials on the control panel of an airplane cockpit, enabling the pilot to scan for signs of abnormal functioning and to keep critical performance variables within preset limits” (Simons, 1995:81). This system is used by managers in order to monitor the goals and individual results as well as to measure the progress in achieving the general target. It is also a tool for criticizing and rewarding employees for their performance. Diagnostic control is used to track the progress of individuals, departments, or production facilities toward strategically important goals and profitability, and to measure the progress toward targets such as revenue growth and market share. Among the variety of diagnostic controls there are profit plans, budgets, and goals and objectives.

Second lever of Simons’ control is *beliefs* system. The core values of the organization and the corporate code of conduct should be clear for every employee. Beliefs systems are aimed at promoting commitment to the organization’s core values, inspiring employees to create new

opportunities, motivating individuals to search for new ways of creation value. They draw employees' attention to key tenets of the business: how the organization creates value, the level of performance the organization strives for, and how individuals are expected to manage both internal and external relationships.

Boundary system provides the potential to do right, specifies the rules of the game, make restrictions on what is not allowed to do, not to make mistake. It is based on a simple, yet profound, management principle that can be called the "power of negative thinking". Telling employees what not to do allows innovation, but within clearly defined limits. Boundary systems are stated in negative terms or as minimum standards. Boundaries in modern organizations, embedded in standards of ethical behavior and codes of conduct, are invariably written in terms of activities that are off-limits. They are an organization's brakes, "like racing cars, the fastest and most performance-oriented companies need the best brakes," – Simons argues (1995:84). Boundaries are especially critical in those businesses in which a reputation built on trust is a key competitive asset.

Interactive control systems are the formal information systems that managers use to involve themselves regularly and personally in the decisions of subordinates. Through them, senior managers participate on the decisions of subordinates and focus organizational attention and learning on key strategic issues. This type of systems focuses on constantly changing information that top-managers identified as strategic and on the information that is significant enough to demand regular attention from operating managers. The data generated by the interactive system are best interpreted and discussed in face-to-face meetings of superiors, subordinates and peers. The interactive lever is a catalyst for an ongoing debate about underlying data, assumptions, and action plans. Simons writes that "interactive control systems track strategic uncertainties that keep senior managers awake at night" (1995:86).

Simons believes that by balancing 4 levers of control managers gain adequate control. Collectively, these 4 levers set in motion powerful forces that reinforce one another. Tackling strategic uncertainties, which might relate to changes in technology, customers' tastes, government regulation, industry competition, etc., is an important task that can be done with the help of Simons' controls. In my research seems also interesting to find out whether the balanced use of these 4 levers of control can assist in handling cultural tensions in the joint ventures.

2.3 Management Control Systems in a Cross-cultural Environment

A developing body of research is directed at understanding MC in companies operating in multicultural environments. In my research, being occupied by studying challenges for MC in Norwegian companies, operating in Russia, I'm very interested in how MCS can facilitate

convergence of different cultures in one company? Which problems this create for managers, and, finally, how MCS can be designed in a way that will promote mitigation of cultural tensions and differences in mentality within an international company? In this regard, it's important to start from defining the notion of culture, so I'd like to review academic publications devoted to the cultural issues in MC and to find some of the answers there.

2.3.1 Culture as a Multi-Dimensional System

Despite different definitions of culture, there is a general consensus among researchers that culture refers to patterns of beliefs and values that are manifested in practices, behaviors, and various artifacts shared by members of an organization or a nation (Hofstede, 1984).

National culture is associated with the design of MCS (Chenhall, 2003). Culture is fundamental to the study of managerial accounting and control systems of a multi-national company in any given country (Emmanuel et al., 1998). Culture influences the norms and values of these systems and the behavior of individuals, operating within and across systems (Harrison & McKinnon, 1986). The nature of management skills is such that they are culturally specific. A management technique or philosophy that is appropriate in one national culture is not necessarily appropriate in another (Hofstede, 1984). Culture can be an antecedent, a moderator or a mediator, and a consequence, and its effects may be domain-specific and are subjected to boundary conditions (Leung et al., 2005).

Hofstede in his studies (1980, 1983 and 1984) detected the elements of culture which most strongly affect behavior in work situations in organizations. He's revealed four underlying societal value dimensions along which cultures could be positioned. These dimensions are labeled as Individualism vs. Collectivism (placing self-interest ahead of the group), large vs. small Power Distance (acceptance of unequal distribution of power), strong vs. weak Uncertainty Avoidance (preference to avoid uncertainty and rely on rules and structures) and Masculinity vs. Femininity (achievement, assertiveness and material success vs. modesty and preference for quality of life). Later he added "the fifth dimension" which is Long-term vs. Short-term orientation also known as Confucian dynamism (Hofstede, 2003).

From on hand, all four dimensions may influence the design of the effective management control system in the international context. Managers in a highly individualistic culture, like the USA, would be more successful with management by objectives than a society that is comfortable with collectivism, i.e., Japan, argues Emmanuel et al. (1998).

From another hand, management control system is designed to influence human behavior in a manner which supports and benefits the enterprise. However, different cultures use and rely on

this information differently. So, perhaps it may be sensible to implement each system of control for all subsidiaries of the international company.

Harrison and McKinnon (1999) have done a review of cross-cultural research in management control systems design. They investigated 20 studies where they identified cultural dimensions and their influence on the characteristics of MCS design. Besides Hofstede's cultural dimensions, there were such as hierarchy, trust and interdependence, harmony, consensus building, paternalism, rank and hierarchical dimensions. As to characteristics of a MCS, they've found such as vertical and horizontal differentiation, centralization, formalization, controllability, budget slack, participative budgeting, short- vs. long-run emphasis, feedback frequency, control through directives and meetings, individual-basis rewards, top down planning, formal rules and many others. Authors argue that researchers tended to neglect the greater depth, richness and complexity of culture and cultural diversity, which Hofstede's dimensions could not always capture. The common for all researchers was the tendency to not consider explicitly the differential intensity of cultural norms and values across nations and to treat culture simplistically.

Santema et al. (2005) continued the work of Hofstede (2003) and raised a problem of time dimension of culture, namely long- and short-term orientation of stakeholders in relation to the level of information disclosure, transparency and accountability. Authors tried to establish whether national culture and national corporate governance features have an influence on the extent to which companies disclose their strategies.

In this setting, long-term orientated cultures are characterized by persistence, ordering relationships by status and observing the order, thrift, and having a sense of shame. On the contrary, the short term orientation is about respect for tradition, personal steadiness and stability, protecting your 'face', tolerance and respect for others, reciprocation of greetings, favors, and gifts. Norway, for instance, has the long-term orientation index of 20, and it is on the 21st place among other countries², which place it among the cultures with more short- rather than long-term orientated cultures (Hofstede, 2003).

2.3.2 Cultural Differences as a Challenge for MC

Cross-national joint ventures have been reported to suffer from communication, cooperation, commitment, and conflict resolution problems caused by partners' value and behavior differences, which in turn cause interaction problems that adversely influence joint venture performance. Values and behavioral differences (myths) between culturally distant partners

² China, for example, has 118 points and ranked as a country with the most long-term oriented culture (Hofstede, 2003). There is no Russia in this rating.

influence interpretation and responses to strategic and managerial issues, compounding transactional difficulties in international joint ventures (Pothukuchi et al., 2002).

Differences in culture between joint venture partners have usually been considered as a major factor that might influence venture failure or unsatisfactory performance (Pothukuchi et al., 2002).

For example, the study made by Lau and Eggleton (2004) examines the role of national culture on managers' propensity to create budget slack, which was induced by several publications aimed at revealing interrelations between budgeting and national culture. The study indicates that budgetary participation, budget emphasis and information asymmetry are three of the most important variables that are likely to affect propensity to create slack. Authors came into conclusion that if information asymmetry is high, a high budget emphasis is preferred to a low budget emphasis. However, if information asymmetry is low, either a high budget emphasis or a low budget emphasis may be employed.

Another important issue that affects MC and is affected by national culture is risk. Understanding international differences in perceptions of MC is crucial to the management of risk within multinational companies. Different perceptions of what constitutes risk, and of how risks can be managed, lead to differences of opinion about the effectiveness of control (Williamson, 2005).

Pothukuchi et al. (2002) adopt the notion of *cultural distance* in order to examine how the performance of joint ventures is affected by the distance on given cultural dimensions at both national and organizational levels.

Problems in joint ventures often stem from the unobtrusive influence of national culture on behavior and management systems that often create unresolved conflicts. For example, cooperation-generating mechanisms vary between individualist and collectivist cultures because of differences in their instrumental and expressive motives. In the context of joint ventures, diversity along each cultural characteristic can be instrumental in setting significant barriers to effective cooperation. Commitment generating mechanisms are also different among different cultures, and cultural differences make it difficult to generate commitment between partners in joint ventures.

Because priorities and expectations of parent firms may be different, managers of joint ventures are prone to role conflict. Methods of resolving conflicts may also vary across different cultures. From the use of direct and confrontational legal tactics in dealing with other firms, when other methods fail, to flexible responding, unfolding problems and avoiding the use of formal, detailed contracts that stress strict performance and enforcement.

Aggregate indices of national and organizational culture distance influence organizational outcomes differently. While national culture distance more significantly affects the efficiency and competitiveness measures of a joint venture performance, organizational culture distance is a better predictor of the satisfaction measure. Chenhall (2003) argues that strong organizational culture may dominate national culture in the work situation.

In view of the findings of plenty of previous research, organizational culture distance generally has a negative impact on organizational outcomes but national culture distance can have either a positive or a negative effect. Research in mergers and acquisitions has consistently showed negative effects of organizational culture differences (Pothukuchi et al., 2002). The overwhelmingly negative effects may arise from the fact that organizational culture distance captures on-going operational differences in norms of organizational practices and behaviors. Such differences result in conflicting expectations, misunderstandings, and interaction problems that are dysfunctional to the joint venture operation. Organizational culture should be considered along with financial and strategic factors.

National culture differences between partners can potentially generate positive or negative effects because differences in fundamental beliefs and values as reflected in the national cultures may turn out to undermine or reinforce partners' collaborative efforts. While some researchers found national culture differences causing conflicts and barriers, others have found national culture differences a source of admiration and challenge, leading to higher level of communication and more sustained collaboration (Pothukuchi et al., 2002).

The distance in the open vs. closed system is another important cultural dimension, which may negatively affect all measures of joint venture performance. A crucial characteristic of the open vs. closed dimension is information sharing. If one partner engages in high information sharing activity (open system) and the other does not (closed system), partners cannot capitalize on the synergy effect of joint venture, and the open system partner may come to suspect the closed system partner's commitment and loyalty toward the venture. As a result, joint venture's performance may suffer. Hence, the negative effect of the open versus closed system distance suggests that, in order to be successful, joint venture partners should have a similar level of information sharing tendency and foster an open communication climate (Pothukuchi et al., 2002).

Many of the performance problems in the joint ventures are related to the unique managerial requirements of such organizations. In order to gain a competitive advantage by using international joint ventures, parent firm(s) needs to identify the linkage and the contribution of each partner and carefully structure the MCS in ways that strengthen the venture. Then, the joint

venture's strategic business planning must be integrated with human resources planning in such a way that it can execute its strategy effectively (Albrecht et al., 1996).

2.4 Organizational Learning

When company operates in a multicultural environment it is therefore a greater need for *learning* and *adaptation* to the changes in this environment. According to initial definition, organizational learning is the process of improving actions through better knowledge and understanding (Fiol and Lyles, 1985).

To put it differently learning is *the process of development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions* (Fiol and Lyles, 1985:811).

For the company to achieve long-term survival and growth, to be competitive and innovative, an alignment between the organization and its environment is a key premise. Such alignment implies that the firm must have the potential to learn, unlearn, relearn based on its past behaviors and adapt to new conditions. Fiol and Lyles (1985) argue that organizational adaptation is essential for the strategic management.

Organizations have leeway and choice in how they adjust to a changing environment, and this leads to the capacity of organizations to learn over time. Thus, organizational performance affects the organization's ability to learn and to adapt to a changing environment.

The clear distinction should be made between the individual and organizational learning. Organizations do not have brains, but they have cognitive systems, associations and memories. As individuals develop their personalities, personal habits, and beliefs over time, organizations develop world views and ideologies. Organizational learning is not just a cumulative result of its members' learning, but a wider process that enables building organizational understanding and interpretation of firms' environments.

There are 4 contextual factors, which influence the learning process: organizational culture, conducive to learning, strategy that allows flexibility, an organizational structure that allows both innovativeness and new insights, and the environment (Fiol and Lyles, 1985). These have a circular relationship with learning in that they create and reinforce it and are created by it.

As organizational culture consists of shared beliefs, ideologies, norms that influence organizational action-taking, it affects the behavioral and cognitive development that organizations undergo.

The organization's strategic postulates to some extent determine its learning capacity. Strategy that company follows influences organizational learning by setting boundaries to decision making and context for the perception and interpretation of the environment. The

company's strategic direction also creates the momentum for organizational learning, which is highly resistant to small adjustments, and can therefore affect entire strategy.

The next contextual factor is organizational structure. Though it is often seen as an outcome of learning, it plays a crucial role in determining these processes. Different decision making structures are needed in the same organizational unit, depending on the degree of flexibility that is required. A centralized, mechanistic structure tends to reinforce past behaviors, whereas an organic, more decentralized structure tends to allow shifts of beliefs and actions.

Learning requires both change and stability between learners and their environments. The process of learning involves the creation and manipulation of the tension between constancy and change. If either the internal or external environment is too complex and dynamic for the organization to handle, an overload may occur, and learning will not take place. Although too much stability within an organization can be dysfunctional (if there is little inducement to learn), too much change and turbulence can make it difficult for learners to simply map their environment.

Having defined what organizational learning is I'd like to clarify the notion of adaptation. It can be misleading to equate learning and adaptation. The former involves understanding of reasons beyond the immediate event, the latter means defensive adjustment. Adaptation may be a part of learning, while learning itself can involve a great deal more. A more general definition of adaptation argues that this is *the ability to make incremental adjustments as a result of environmental changes, goal structure changes, or other changes* (Fiol and Lyles, 1985:811).

Learning can be classified into two levels: lower-level learning and higher level learning. The former is also known as "behavioral level learning" or "single-loop learning" and represents a focused learning that may be just a repetition of past behaviors, usually short-term, temporary, but with associations being formed. It captures only a certain element adjustments in part of what the organization does. The desired consequence of lower-level learning is a particular behavioral outcome or level of performance. Though there may be far-reaching effects, the focus of this learning is on the immediate effect on a particular activity of the organization.

Higher-level learning or "double-loop learning", on the other hand, aims at adjusting overall rules and norms rather than specific activities or behaviors. Its objective is to establish complex rules and associations regarding new actions. The associations that result from higher-level learning have long-term effects and impacts on the organization as a whole. This type of learning occurs through the use of heuristics, skill development, and insights. It therefore is a more cognitive process than the lower-level is. The desired consequence of this type of learning often is not any particular behavioral outcome, but rather the development of frames of reference and change of assumptions.

All in all, organizational adjustment, change, share of assumptions, learning or adaptation, whatever its form, is a critical element of the strategy formulation and implementation. By adapting to the changing environment, international companies enhance their ability to survive. Especially in multicultural companies learning plays an important role. It creates the need for training of managers and employees so that they learn and change together with the company. With respect to managers it is important to develop different skills, which support organizational change. In a situation where learning is accomplished through system of social norms, myths, and traditions, the need for interpersonal communication skills, trust, and openness are critical.

2.5 Design and Mobilization of Management Control Systems

Culture has become important in the design of MCS (Chenhall, 2003). Nowadays multinational companies face the issue whether to transfer their domestic MCS overseas, or redesign their systems to fit cultural characteristics of the offshore entities. Thereby, it is reasonable to understand what is understood by the process of designing MCS. However, “design is not the end of management concerns. The design has also to be mobilized” (Mouritsen, 2005:13). Therefore, in this section I’ll focus on the design and mobilization of management control systems.

As the company experiences organizational transformation, induced either by learning, adaptation or by other processes, its MCS changes. Mouritsen (2005) believes that organizational transformation is situated between the design and mobilization of MCS. Changes occur even after implementation and design can transform organizational action to the point where organizations may run wild.

Many companies as well as individuals are afraid of the changes, and when it comes to change of MCS, researchers consider it as a risky and difficult affair (Burns and Scapens, 2000). And even if the change of MCS is successful it often takes a long process of implementation to make it strong. It takes a lot of time, energy and motivation to develop and implement a MCS. This includes alliances between actors, and political games are played out to support the construction of MCS (Mouritsen, 2005).

Mouritsen (2005) argues that design is about conceptualizing things, and in designing management control systems, an effort is made to define roles, decision rights, objectives and performance criteria. Such a design concerns the division of labor, the distribution of responsibility and the delegation of authority and competence. Often a design is a blueprint for how organizational activities are expected to be carried out to achieve coordination and integration. Finally, it is an “artefact” where a MCS is equipped with calculative, organizational and technological procedures.

The design also has to be mobilized. Mobilization is the process where the design pushes to people's concerns, interests and ambitions. Mobilizing a design is both developing organizational transformation and changing the design, which is done by intervening into its effects. Manager should make attempts to predict, where a design will fail and invests in clearing a potential mess, before it arrives (Mouritsen, 2005).

Mobilization refers to activities that managers may install to orient the design more clearly towards the desired affects, to make the design perform in relation to organizational concerns. Mobilization intervenes and creates supplements that change conditions for the design to work.

The terms design and mobilization are parallel to implementation and use, but changes how change and continuity are constituted. While implementation and use assumes transformation in the beginning followed by a stable period of application afterwards, design and mobilization suggests that interrelations between designed MCS and human actors always produce effects that the former have to respond to.

The interesting thing about design is that it has effects, and still it can run blind when, or because, it works. But also "the design can run wild" (Mouritsen, 2005: 20). Thus, the role of managers is to analyze and predict where designs could "run wild" and in turn add certain processes and other supplements that may carry the design through its crisis. This is achieved by intervening into it.

2.6 Summary

Managers of international companies can and should design their MCS in a way that aids in moderating cultural tensions, overcoming associated challenges and promote better performance. This should be done through constant learning and adaptation to the changing organizational and external environment, which seem a prerequisite in achieving long-term fruitful relationships between the partners with different cultural backgrounds.

In my opinion it was important to address much attention to the concept of management control in this chapter, by approaching it from different sides and perspectives: discussing MC as an inherent link in an organizational hierarchy, studying design and mobilization of management control systems, using framework of control levers as a tool for its interpretation. Another significant issue, outlined in the frame of reference, was a serious impact of differences in culture between joint venture partners on MCS. Now when the theoretical frame of reference is built, it seems logical to stick to discussion of the methodological issues that I have experienced during the research process.

3. Method

The term *method* refers to technique and procedure used to obtain and analyze data. The word method derives from the Greek *methodos*, which means “the road to goal”. In contrast, the term *methodology* refers to the theory of how research should be undertaken (Saunders et al., 2009). Methodology describes the way method should be used in a science. Easterby-Smith et al. (2008) sees methodology as a combination of techniques used to enquire into a specific situation.

3.1 Roadmap for the Research

Research is a discerning pursuit of the truth. By doing research we are looking for the answers. In order to get the trustworthy answers the researcher must begin from asking the right questions and seeking for the appropriate methods to handle the research. By the right question is meant that the research must be needed by someone (management, shareholders, analytics, or other researchers) and the problem statement must be clear-cut. As to the method of the study, the more precise we are in deciding on it, the more chances we have to end-up with a sound research model, which can eventually lead to reliable and valid results.

According to the recent literature in the field of business and management research, the research itself is a multi-stage process that one must follow in order to undertake and complete the research project (Saunders et al., 2009; Hair et al., 2007; Easterby-Smith et al., 2008). The business research process provides a roadmap with directions for conducting a research project. My interpretation of the business research process model, based on the works of Saunders et al. (2009) and Hair et al. (2007) is presented on the figure 3.1 below.

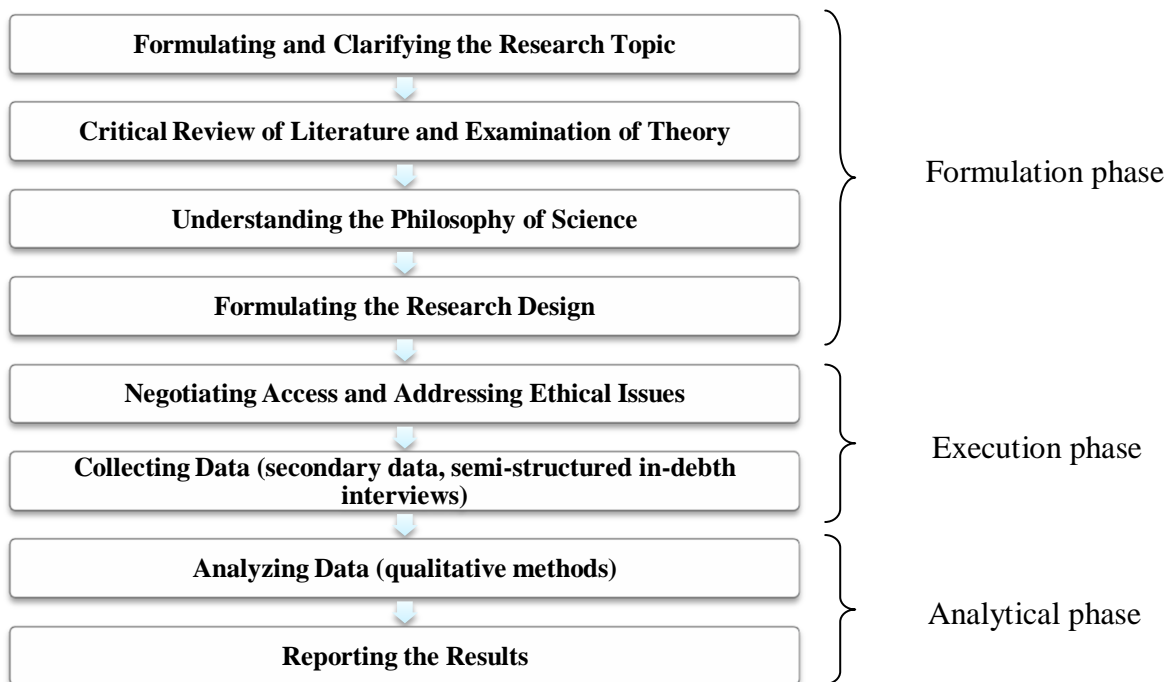


Figure 3.1 – The research process model (adapted from Saunders et al., 2009; Hair et al., 2007)

In the following sections I'm going through the steps in the research process (figure 3.1), explaining my methodological thinking during the work on the master's thesis. Afterwards the quality of the research is considered, specifically ways of securing reliability and validity of findings. A summary, regarding my choices of methods in the research, is drawn in the end of this chapter.

3.2 Formulating and Clarifying the Research Topic

Before getting started my research I knew one thing for sure, that my thesis would be about Russian-Norwegian cooperation. The idea was trivial, but it inspired me and I started thinking of what my research topic could be about. Soon the initial thought was narrowed down from bilateral cooperation to the joint venture level. Then I started to search for the Russian-Norwegian companies. The desire was to study how management control is organized in such companies and what challenges do they face in relation to their Russian-Norwegian background. At first I was thinking of selecting three or more examples of such companies. The first was one Norwegian company, which had been operating in Russia for a long time, but has recently shut its joint venture there. Another company entered Russian market via FDI several years ago and was looking forward to continue collaboration. The last one was about to establish itself in Russia. My initial purpose was to draw a comprehensive picture of each firm, to find out what kind of challenges managers and Directors of these companies did face and how did they try solving them. Considering the third firm, the curiosity was in gaining managers expectations and a priori knowledge about Russia, its business environment, economy and policy. It seemed to be interesting to compare their opinions and the real-life experience of two first companies. However, it proved to be rather difficult to explore three cases in one master's thesis during one semester, working alone. Therefore, I decided to focus on two first cases, leaving the third one without further consideration.

Before starting the research I needed to be sure that the access to all necessary data, related to these two cases, would be granted. This was done via my supervisor, who provided me with necessary contact information of several key persons, as well as my personal connections. More about the gaining access to the relevant data and informants is described in section 3.6.

Nevertheless, after the narrowing my research topic down I still didn't have clear research question, but what I had was just a research idea. According to Clough and Nutbrown (2002) the research questions can be "too big", "too small", "too hot" or "just right". Those, which are too big, require significant funding because they demand too many resources. Questions that are too small are likely to be of insufficient substance, while those that are too "hot" may be so because of sensitivities that may be aroused as a result of doing the research. Research questions that are

“just right”, note Clough and Nutbrown (2002:34) are those that are “just right for investigation at this time, by this researcher in this setting”.

Let’s consider me as a researcher at the present setting. I’m graduating from Master of Science in Business program, specializing in Management Control with background from the Russian-Norwegian educational program Master of Business Administration and Engineering (MBAE) added by 5 years of technical studies within Mechatronics, Robotics and Control Systems at Baltic State Technical University. My experience in the management research can be described by one project paper within management control and the graduation work from MBAE where I’ve been studying the use of accounting information in small Russian business.

In my master’s thesis I wanted to use my competences from studying and living in two countries inside two different environments. After the preliminary study of up-to-date publications in MC I came into conclusion that the topic of MC in Norwegian companies, operating in Russia is an interesting theme to be studied. Thus, after the discussions with my supervisor, and when the research process has already started the research question for my study was formulated:

Challenges for management control in Norwegian companies, operating in Russia: How managers interpret and handle them?

As a unit of study two companies were chosen: Rossnor³ and Reinertsen NWR. These two companies are different in many ways, but at the same time they have something in common, that makes them interesting for the discussion and analysis. The case of Rossnor is primary in my thesis, while Reinertsen NWR is secondary. First of all this is due to the fact that Rapp Marine AS has a hundred-year history, where 19 of them counts Rossnor. It’s rather long time, associated with big changes in Russian political and economical life as well. The company has gone a long way from the establishment in Russia right after the collapse of the USSR until its end in 2011 – the time of writing this thesis. Reinertsen AS is a 65-years old company, which came into Russia in 2005, and has been expanding their activities there since that time.

The decision to study two cases instead of one was based on the desire to learn more about both companies, try to understand what was common for them in association to management control practices, to find out some peculiarities that one firm can learn from another, to study what issues were the most challenging for the companies. In my opinion, by studying two cases, findings can be more likely generalizable and results of the research can be used by other Norwegian companies, which are planning to establish themselves in Russia.

³ Rossnor is a Russian subsidiary of Norwegian Rapp Marine AS.

3.3 Critical Review of the Literature and Examination of Theory

Hair et al. (2007) argues that the literature review helps in developing and expanding the research ideas and ensures that the researcher is familiar with recent developments having a complete understanding of relevant topics. My critical review of the literature began from reading through articles in the syllabus, where the key academic theories, studying different issues within MC, management accounting, inter-organizational relations, etc. were outlined. In addition I've been reviewing literature within management research and philosophy of science from the "Research methods" course, gathering knowledge about different approaches to doing research within social sciences. Numerous books, articles, publications and other academic materials were investigated in order to build a theoretical frame of reference. In addition materials concerning the companies of interest (magazines, previous master's theses, web pages) were studied for drawing a preliminary picture of them and creating an empirical basis of my research.

Though, the literature review was one of the first steps in writing my thesis, it has continued up to the end. In the beginning, my research question was changing and that required new insights from the academic literature and different theoretical perspectives, later I was interested in the data-collection and data-analysis approaches used in previous research in order to learn from them and build the framework for my thesis. Thus, literature review and theories examination was an ongoing process during all steps of my research and, as a process of "building the knowledge", it was conjugated with the continuous acquisition of new data.

3.4 Understanding the Philosophy of Science

Understanding of philosophical issues was very important for my research. Knowledge of the philosophy of science helped me in clarifying the research design and saved much time and resources avoiding me "going up too many blind alleys".

In the history of science there are three major philosophical (epistemological) views on how social science research should be conducted, which are positivism, relativism and social constructionism. After studying all three I came into conclusion that social constructivism suits best for my research. Let's consider the reasons for this choice.

Social constructionists argue that "reality" is not objective and exterior, but socially constructed and given meaning by people. Researcher, positioned within such scientific paradigm, appears to be a part of what he or she is studying. Social constructionists focus on the ways that people make sense of the world, through sharing experiences with others via the medium of language (Easterby-Smith, 2008).

Method

Social constructionism is referred to one of the interpretive research methods. Thus, within such paradigm, a lot of attention is paid to people's personal perceptions and collective opinions, to their thoughts, interpretations and the ways they communicate with each other. The task of social scientist is not to gather facts and measure how often certain patterns occur as positivists are willing to do, but to appreciate the different constructions and meanings that people place upon their experience. When in positivist's research, for instance, human interests should be irrelevant, in social constructionist's one, they turned out to be the main drivers of science.

If we compare social constructionists and positivists, we'll see that they differ in the approach to the study of the same research problem, in my case, the social system. Positivists believe that social systems follow the existed nature laws. Social constructionists aim at finding these laws and regularities, which determine the people's (managers') behavior and express them in a systematic way.

The social system can be studied from the inside, by diving into it, by listening to the people, engaged in it, by studying internal processes, decisions and their consequences on the system and on external stakeholders. It becomes possible due to that social systems are built on the interrelations and communications between the individuals in it.

I believe that my knowledge of challenges, faced by managers of the company can be acquired from the inside, by communication with owners, managers, other groups of the employees, by studying the history of given company, backgrounds of the key persons in organizations, by knowing their opinions on the different issues, related to my research, etc.

My choice in this thesis is to construct knowledge by going from particular to general. My choice of the philosophy in the research is that by studying opinions of particular managers on different occasions as well as their actions in response to those occasions, the general knowledge can be build, which with the help of further analysis can be structured and generalized.

It was more or less clear beforehand that the research would hardly ever be quantitative, and that it would be based mostly on qualitative data. The research wasn't based on "hard data" as positivists usually do, on the contrary, as a researcher I've been preoccupied with collecting manager's views and opinions, paying attention to the experiences they had from before. That's what social constructionists usually aim at, increasing general understanding of the situation, by gathering rich data from which ideas are induced (Easterby-Smith et al., 2008). That is one more argument for the social constructionist's philosophy.

Despite relativist's philosophy have certain contradictions with the social constructionism, some aspects of relativistic approach can be applicable in my thesis. The relativist perspective accepts the value of multiple data sources and thereby grants greater efficiency by including outsourcing materials and opinions (Easterby-Smith et al., 2008). The main way for achieving

the truth, due to relativism, is triangulation – a powerful technique that facilitates validation of data through cross verification from more than two sources. In particular it refers to the application and combination of several research methodologies in the study of the same phenomenon (Bogdan & Biklen, 2006). Triangulation will be a useful tool for combining data, collected during interviews, theoretical perspectives and secondary data.

All things considered, the research process in this thesis will follow social constructivist perspective, though some techniques are taken from other philosophical paradigms. In this project I, as a researcher, accept that the knowledge of the world cannot be truly objective, meanings and understandings are constructed and reached individually or through discussions with others. This enables the researcher to capture and understand the rich experience of practitioners/informants and to interpret it with respect to the research question.

Thus, the philosophy of this paper stems from a belief that the study of the management control and challenges associated can hardly ever be entirely objective and that the nature of truth is influenced by those who perceive it. It's therefore important to get understanding of experiences that companies have from before, their objectives, managerial “myths”, beliefs, backgrounds, cultural peculiarities.

To sum up, the in-depth understanding of the studied phenomenon will be reached by the constructivists/interpretivist position about the subjective nature of reality and, thus, the choice of the qualitative research method to study. Besides, the concept of triangulation, a technique that is widely used by relativists, is implemented in given research. Such choice is based on the research question and perspectives of the phenomenon to be studied.

3.5 Formulating the Research Design

The research design indicates what a researcher is willing to investigate, what he wishes to achieve by the means of the research, how deep is the intention to dig in the problem and how the results of the research can be used by academics, or other readers. Researchers often distinguish between three types of research design: explorative, descriptive and causal (Gummesson, 2000).

Explorative studies are useful when a researcher wants to find out what the nature of a problem is, wants to explore it with the help of questions and ultimately sees the phenomena in new lights. They are especially helpful for researchers, who wish to clarify their understanding of a problem. This type of research is rather flexible and adaptable and researchers must be willing to change the direction of ideas when new data appears or when a new insight occurs. It is usually concerned with few respondents, expert interviews, literature, different case studies and mostly theoretical but logical generalization (Saunders et al., 2009).

Method

The object of descriptive studies is to show accurately what the scope of the problem is and what the profiles of persons, events or situations are. Descriptive research can be an extension to, or a predecessor of explorative research. Since descriptive studies must be precise, it is important that the researcher has got a clear picture of the problem prior to the collection of data. According to Saunders et al. (2009), descriptive studies should be seen as a means to an end rather than as an end in itself.

Causal (cause and effect) research is a study that is aimed at identification of causal explanations and fundamental laws that explain relationships between different variables, for instance, behavior of managers in relation to specific situation. Causal studies can be facilitated by statistical methods, correlation tests, random sampling and uses statistical generalization (Saunders et al., 2009). They are more common approaches for positivistic studies, rather than for constructivist research.

When developing the research design the researcher thinks of the best approach to understand and answer the research question. In this project work, the phenomenon will be investigated with the help of an explorative design, because it is of high importance to get to know and understand the nature of the problem. My objective was to dive into the history of the two Norwegian companies, having production facilities in Russia, specifically, to explore problematic issues for the system of planning and control in these companies, from two-sided perspective. In my opinion, such research design suits well for the social constructionism philosophy.

Thus, an explorative design with social constructionist philosophical foundation is the methodological approach to this research. In order to conduct an explorative research, “rich data” should be collected for the posterior interpretation. There are five main research approaches on how to gather this data, analyze it and how to discover people's feelings and perceptions. These approaches are: action research and cooperative inquiry, narrative methods, case study research, ethnography and grounded theory (Myers, 2009).

The *case study* looks in depth at one, or a small number of, organizations, events, or individuals, generally over time. Although there are numerous definitions, Yin (2002) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when boundaries between phenomenon and context are not clearly evident. The case study is a method of mainly qualitative research. Instead of using large samples, it involves in-depth examinations of single events.

There are different data collection methods employed in a case study research. They may include questionnaires, interviews, observation and documentary analysis. According to Saunders et al. (2009), a well-constructed case study can help the researcher to challenge an

investigated theory and to provide a source of new hypotheses. Hägg & Hedlund (1979) and also Brunsson (1985) argue that case studies don't generate general knowledge, but their strength is in generating specific knowledge about structures, actors and processes, and about relationships between them. That is exactly what I'm interested in the thesis.

Case studies can be different in character but there are two types that are of particular interest. The aim of the first one is to derive general conclusions from a several number of cases. The second type aims to draw particular conclusions regarding a single case with the assumption that the researcher is very interested in that specific case (Gummesson, 2000:84). My choice is the first type of case studies.

3.6 Negotiating Access and Addressing Ethical Issues

The *access* to data, needed for the research, according to Gummesson (2000), has two levels: the *physical access* and the *cognitive access*. The physical access or just entry is an ability to reach the relevant informants and to get their agreement of providing necessary information. A cognitive access is much broader notion, meaning the ability of a researcher to negotiate him into a position where he can collect data that reveal the reality of what is occurring in relation to the research questions and objectives.

As it was mentioned in section 3.2 the physical access to the relevant informants was ensured on the earlier stages of the research, by contacting the informants via telephone and e-mail in order to organize personal meetings with them. All informants that were contacted agreed to meet me and to provide me with practical information about the companies. The cognitive access was secured by my preliminary analysis of the companies, critical review of the literature and scanning the relevant theories as well as reading other published materials, somehow related to the industry in which the company operated in. Courses, taken during two years of master studies was a solid foundation for my cognition of the management planning and control procedures as well as other issues of the organizational environment.

Ethical Considerations

There are many methodological challenges researcher can face while writing a research project. Ethics within research is a complex and important matter. Ethics refers to the appropriateness of researcher's behavior in relation to rights of those who become the subject of his work, or are affected by it.

Research ethics relates to questions about how researcher formulates and clarifies his research topic, designs his research, gains access, collects, processes and stores the data and writes the research findings in a moral and responsible way (Saunders et al., 2009). I found this as an interesting and important statement, which set the ethical frame for the research process. I

tried to show best possible behavior and respect toward the major informants during the research process. It became important that the interviewee felt comfortable during the interview and all questions were ethically correct. Taking into account the fact that all informants are very busy people working in a fast-paced industry; they still managed to find the time and invested it in my research. This acknowledgement has put some responsibility or even obligation to present their point of view and all opinions very precisely. If the informant shared any sensitive data with me, it was not used in the project, when they asked about it, even though such kind of data could have strengthened the research. During the two interviews I was asked not to use the voice recorder at all, as confidential information was shared. To ensure that informants could feel comfortable in the interview situation, I offered them to review my empirical findings about them that have been found beforehand before turning to the dialogue and they appreciated such offer.

3.7 Data Collection and Analysis

Bogdan and Biklen (2007:117) argue that “*the term data refers to the rough materials researcher collects from the world he is studying; data are particulars that form the basis of analysis.*” In this section I’ll shed light on the data collection and analysis in my research.

After having determined the philosophical position and the research design I started thinking of the most authentic sources of information for my study. The case study approach and explorative design allowed collecting information from a variety of sources. Having considered all possible alternatives among observations, interviews, questionnaires, documentary analysis, etc., I came into conclusion that in my setting the most efficient approach is interviews. By efficient I assume that the outcome that can be reached by interviewing relevant informants requires less resources than, for example, observations or questionnaires. Interview, on the contrary, requires serious preparation beforehand and approximately an hour or so for the dialogue itself, which is a purposeful discussion between two or more people.

There are different types of interviews. Interviews can be highly formalized and structured (*structured interviews*), using standardized questions for each respondent, or they may be informal and unstructured conversations (*unstructured or in-depth interviews*). In between there are intermediate positions (*semi-structured interviews*). According to King (2004) semi-structured and in-depth interviews are referred to “qualitative research interviews”, while structured interviews referred to “quantitative research interviews” as they used primarily to collect quantifiable data.

In semi-structured interviews the researcher has a list of themes and questions to be covered. The order of questions can be changed depending on flow of conversations, some questions may

be omitted, and additional ones may appear in order to explore the research question and objectives given the nature of events within particular organizations. Unstructured (in-depth) interviews are used to explore in depth a general idea in which the researcher is interested. Such interviews do not assume having a predetermined list of questions to work through, although the interviewer needs to have a clear idea about the aspects he wants to explore.

In my research I chose to use “one-to-one” (with a single respondent) interviews, which have characteristics of both semi-structured and in-depth interviews. Thus, semi-structured in-depth interviews became the main tool of gathering primary data for my thesis, as the research questions required managers’ detailed experiences, thoughts and opinions. I found it beneficial for my research to have a predetermined interview guide, that helped me to lead the dialogue and to cover all the necessary topics, but at the same time I gave opportunity for my interviewees to feel free to talk about issues they thought were relevant for my research, even if they were not asked about them directly. Several interviews were hold in a “face-to-face” way, but one interview was conducted by telephone due to the long distance between me and the respondent.

In my case the best informants were the general, operational and middle-level managers, other employees from management team of the companies, owners and Directors. A serious preparation was carried out for the interviews, using principles and technique of conducting interviews by Riley et al. (2000). An interview guide⁴ had been prepared and sent to interviewees before each interview, so that they could be aware of the questions they would be asked. Those interviews that had been recorded – later were transcribed, others that were not recorded – were note-taken. Afterwards the gathered information was used in the thesis in agreement with informants.

Relying only on interviews with several persons could be risky, even if they are one of the most competent and smart guys within the company, in terms of having a big chance to end up with only subjective managers’ point of view and as a result to fail a reliability test. In this case the research can become a narrative one, because it’s based on “the analysis how people describe or account for events, real or imagined, often referred to as the telling of stories” (Easterby-Smith et al., 2008). Due to not to end-up just with narratives, the concept of triangulation was used. Triangulation in this case means using something else, but not only one source of information, particularly, interviews, crosschecking findings from one source of information against another. In this respect information from companies’ web pages were reviewed. Other important sources of primary data for my research were the Board of Directors' Annual Reports, Financial Statements for several years, Minutes of the Board meetings, Auditor’s reports, Duties

⁴ Interview guide, which represents the overall set of questions, which the respondents were asked, is presented in the appendices.

of the Board, Guidelines and Procedures for the Management, etc. As to the secondary data, previous master's and doctoral dissertations, related to the investigated companies.

Hermeneutic Circles

A way of understanding the data can be presented by the hermeneutic circle, i.e. understanding the whole by understanding its parts. Hermeneutics mostly supports qualitative research in treating, understanding and interpreting given information (text). The researcher's presupposition or pre-understanding is valuable for the interpretation of texts, therefore it is important to construct a framework for the analysis. Also, the researcher should take issues that shape the data (e.g. prior assumptions, biases, experiences) into account (Gadamer, 1976).

Hence, interview guide was prepared and soon a first round of interviews with managers of Rossnor and Reinertsen NWR was held. Getting information from the Norwegian informants and interpreting it was the first hermeneutic circle of my study. At this circle I gained initial insights about the companies, its strategies, current operations, history. The second hermeneutic circle brought me to Russia, where I interviewed both Russian and Norwegian managers, working there, as well as Directors, gaining information about companies' weaknesses and strengths, challenges and opportunities that production in Russia created for them. The last round of interviews was required in order fill gaps and to clear-cut some issues, which still were not clarified. This was done again in Norway by one face-to-face and one telephone interview.

When the data has been collected I took a short break and then continued with sorting it out and presenting it in a consistent and logical manner. The most challenging task for me in the research process was to interpret and to analyze the data, to pick different units of data together, to determine which data can lead to gaining insight of the studied phenomenon, and to generalize the main findings.

In the analysis and discussion part of my work, at first, I tried to reveal "western myths of management" that imprint the behavior and mentality of Norwegian businessmen and to draw a parallel with Russian "business framework." This helped me in analyzing the management control system in a cross-cultural environment and, finally, brought me to the discussion of challenges that it faces.

3.8 Reporting

This research project is a Master's Thesis, which is something that set certain requirements as to the form of presenting it. Thesis must clearly express the logic of the researcher's inferences as well as explain how the final results were obtained. The target group for my Master's Thesis, besides censors and faculty teachers, is Reinertsen, Rapp Marine and, probably,

other Norwegian companies, interested in doing business in Russia. This is potentially a diverse target group, so it is important, that the Master's thesis is interesting and useful to all of them.

While structuring my thesis I used advice given me by supervisor and by faculty teachers during the Master's Thesis seminars. In addition I used Master's Thesis guidelines and suggested by Saunders et al. (2009) structures for the research projects. Therefore, given Thesis has a common, for such kind of projects, structure and consists of following parts: Abstract, Abbreviations, Introduction, Frame of reference, Method, Empirical Findings, Discussion, Conclusions, References, and Appendices.

3.9 Quality of Research

In case studies and explorative research it is usually rather difficult to assess the quality of the research project. The quality assessment process should take into account many aspects on every phase of the research process. In the majority of social science research literature the question of quality of the research is an issue of the two criteria, *reliability* and *validity*.

3.9.1 Securing Reliability of the Research

By reliability I understand how accurate the data has been collected, processed and analyzed. A reliable is a research that one can rely on, and trust its results. Easterby-Smith et al. (2008) argue that "reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings." In order to secure reliability it's important to assure that the data and conclusions are free from errors, and are characterized by representation of faithfulness and verifiability.

Errors that occur during the communication process can be related to either (1) interviewer or (2) respondent. Another type of errors, which lie somewhere in-between, can occur, if antagonism between the researcher and the respondent appears.

The first type of errors can occur if the interview becomes boring and not interesting for the informant, when questions are confusing, vague or not properly formulated. In addition, errors can appear if interviewer doesn't follow respondent's answers carefully, makes mistakes while writing down the responses or doesn't note-taking at all.

To ensure that my research is free from such errors I've been preparing myself for each interview, read a plenty of information about the company and specifically about the person I was going to interview. I tried to get in touch with the informant already before the interview, by making one-two phone calls and sending e-mail with the short description of my background, the topic of my thesis and draft of the interview guide. During the interview I tried to be precise in questions I was asking. If I didn't understand something in the respondent's answer, I asked to explain me that issue once again. When I was interested in some specific, technical questions, I

used to repeat the respondents answer slowly in order to get his agreement that I had got his point of view entirely and correctly. Besides, I've been recording and writing down the most answers of interviewees.

One can argue that errors of the second type are on the respondent's conscience, but the goal of the interviewer in this case is to minimize the risk of such errors' occurrence. Informant, for instance, may not understand the question clearly, or may simply be unaware of what he was asked about. In this case researcher must notice that and either repeat or reformulate the question. In the interviews I tried to use simple language and establish personal contact with my informants.

Interviews are difficult to test beforehand, that is possible in case of questionnaires, for instance. In addition, each respondent is a unique person with its cultural and professional background. Therefore, I invested a plenty of resources in creating a new interview guide for every conversation, tried to make each question as clear-cut as possible and avoid asking the questions, lying outside of the respondent's scope.

I believe that my Russian background from one side and experience of studying and living in Norway for almost two years from another helped me in understanding different problematic issues, especially connected to cultural differences between two countries. Interviews were hold in both countries with both Norwegian and Russian managers. In case of Rossnor it seemed useful to understand the point of view on the same issues of both Russians and Norwegians. In this respect many questions were the same for two parties, but answers often differed. In order to be as objective as possible I tried to represent both opinions in my research, and tried to analyze outcomes it has created for the company and its management control system.

One can argue that a research has produced reliable results if another researcher can get similar results, having done his own study, pursuing the same goal. By triangulating data I tried to avoid informational bias and increase the degree of objectivity of my research, which in my view promoted reliability of findings. Another tool that I used in order to secure reliability of empirical data and the consequent analysis was sending the empirical chapter to key informants asking for the confirmation whether it was correct, up-to-date and did not contradict to what they had said to me.

3.9.2 Securing Validity of the Research

Validity is "concerned with whether the findings are really about what they appear to be about" (Easterby-Smith et al., 2008). Validity of the research deals with the relevance of research with respect to the research question. In social constructionist's research literature there are three

criteria for assessing the validity, namely *authenticity*, *plausibility* and *criticality* of the information obtained during the research process (Easterby-Smith et al., 2008).

Authenticity involves convincing the reader that the researcher has a deep understanding of what was taking place in organizations. In the empirical chapter of my thesis I've presented enough information about the companies', key facts from their histories, the context they were working in, internal processes, interrelations within and with externalities, challenges connected to operating in Russia and many other details that could draw a complete picture and lead the reader to follow the logic of the research.

Plausibility requires the research to link into some ongoing concern/interest among other researchers. In general, my research aims at exploring problematic issues within management control in Norwegian companies, operating in Russia. Thus, it can be related to research within management control, internationalization and differences in business cultures across countries, which in my opinion is on the agenda today.

Criticality means that valid research encourages reader to question their taken-for-granted assumptions, and thus offer something genuinely novel. To my mind, a critical reader can find in my research many interesting issues, like why some control procedures and rituals work in one cultural environment and do not function in another or why Norwegian male manager, working at the production site in Russia endowed more authority and respect from workers, compared to female Russian manager.

In my project validity is related to how the empirical findings were obtained and presented, whether they give a true picture of what is being studied and whether they are relevant and helpful for the analysis. Also the concept of validity is applicable to the quality of the executed analysis.

According to the classification of Yin (2002) there are several types of validity. I'd like to focus on the two, namely *internal* and *external*. Internal validity "refers to the extent to which the data accurately reflect the phenomena under the study". External validity or *generalizability* is the "applicability of data to other like cases" (Yin, 2002:319) or to put it differently, whether findings may be equally applicable to other research settings, such as other organizations.

Case studies are often criticized for providing low external validity. To my mind, results of given research can be applicable for investigation of other companies in a similar context. There are similar aspects in two cases that have been studied, and such similarities can be discovered in relation to other companies, which find themselves in such context.

The internal validity was secured by choosing the proper research design and using comprehensive primary data as well as relevant secondary data. After each interview I was

analyzing the new information and thinking of how it can be better presented and where it can lead my research to, thereby the risk of ending up with poor validity was minimized.

3.10 Summary

In this chapter of the Master's Thesis I tried to provide an insight behind the decisions and choices I made, when faced various methodological dilemmas. At first, I decided to build my research on the social constructionist's philosophical basis. Then I chose explorative research design among other qualitative designs, specifically case study research. For gathering the primary data I chose interviews, one of the common ways of data collection in social constructionist research. In addition such method is not costly, making it a suitable for the Master's Thesis. Besides, I found triangulation, a technique common for relativistic research, beneficial for my research project and used that method while collecting and analyzing data. The interpretation of data was represented by several hermeneutic circles. Looking through the "lens of the theory" on the empirical findings was the core of the analysis part. During all stages of the research process I tried to use transparent and logical methods and I think that I've got believable results. Choices, regarding the methods constituted to the promotion of validity and reliability of the research.

4. Empirical findings

In this chapter I'm going to present the main empirical findings, related to two cases of Norwegian companies, established in Russia. These two stories are having approximately the same structure. In my opinion it is reasonable to start with the short introduction of the Norwegian "parent company" of each firm and only after that proceed to the description of the joint venture in the case of Rossnor, and FDI in the case of Reinertsen NWR. After that I'll focus on the different types of challenges, associated with doing business in Russia that companies have experienced over the years of collaboration as well as solutions that management and the Board of Directors⁵ have been implementing for overcoming different kinds of barriers.

The data in this chapter is organized in a way that will aid the analysis part of the thesis. This is done by dividing the empiric material, besides the historical overview of the companies (4.1.1 – 4.1.3, 4.2.1 and 4.2.2), into three levels: data associated with strategic planning (4.1.4 and 4.2.3), findings, related to the challenges for management control (4.1.5 and 4.2.4) and operational control (4.1.5 and 4.2.5) of the two cases. Such division is based on the framework (figure 2.1) of the pioneer in the research in the field of Management Control – Robert N. Anthony (1965). The summary of the empirical chapter is presented in final section 4.3.

4.1 Rossnor: Pioneer in the Norwegian-Russian Cooperation after the Collapse of the USSR

4.1.1 Brief Overview of the Age-old History of Rapp Marine Group

In the very beginning of the XX century there lived a talented Swiss engineer and designer – Ferdinand Münz. In Göteborg he began his experiments with engines. Münz managed to build his first two-stroke hot-bulb gasoline engine and has been awarded a bronze medal at the Bergen Trade Fair of 1907 (Olsen & Jenssen, 2009). Soon after the owner of the workshop, where Ferdinand had been working at that time became interested in Münz's motors as well as his father-in-law, a ship owner Karl J. Olsen. Together they helped to raise a capital for establishing a company, which would produce engines, constructed by Münz.

Funds for trial operations were ensured and on the 17th April 1907 the company was registered in Kristiania under the name "Aktieselskapet Motoren Rap". The shareholder's capital was NOK 15'000, divided into 30 shares.

Motoren Rap produced different kind of two-stroke and four-stroke ignitable engines mainly for fisheries in Norway. Already in 1910 the capital has been increased up to NOK 40'000, where among the 23 shareholders Münz owned NOK 3'000 (Røsholm and Salvesen, 1982).

⁵ Relevant only for the case of Rossnor. Reinertsen AS is a family-owned business, with owners, employed in the top-management, without Board of Directors as such.

Empirical Findings

Much water has flown under the bridge since that time. During the last 100 years company has gone a long and exciting way from local producer of engines to the worldwide net of production machines and equipment for maritime and offshore industry. Two of the most important product lines that today Rapp offers to its customers are water- and fireproof doors and hydraulic winches (Gjelsvik, J., T. 2000). Besides these, the Group offer other deck equipment, rigging, mooring, subsidiary equipment, equipment for vessel services as well as fishing equipment and materials.

Rapp Marine Group has been focusing on advanced technology in production of machinery and deck equipment worldwide. It sets high priority on R&D activities, which is closely linked to the Group's basic strategy, which is to create goods and solutions at the technological forefront for an international market.

In the latter decades Rapp Marine Group has been expanding. One result of such extension is illustrated on the graphs below (figures 4.1), showing annual profits and turnover for the 20 years since 1987. On the figure A.4.1 in the appendices the changes in Rapp's equity during the same period of time are presented. The Group's turnover, for instance, exceeded NOK 400 million in 2007, which is almost three times bigger than the figure for 1987. If we look at the diagram showing Rapp's profits we'll see NOK 9 million for the centenary year, which is approximately 20 times higher, than twenty years ago, but less than top profits of the late 90s.

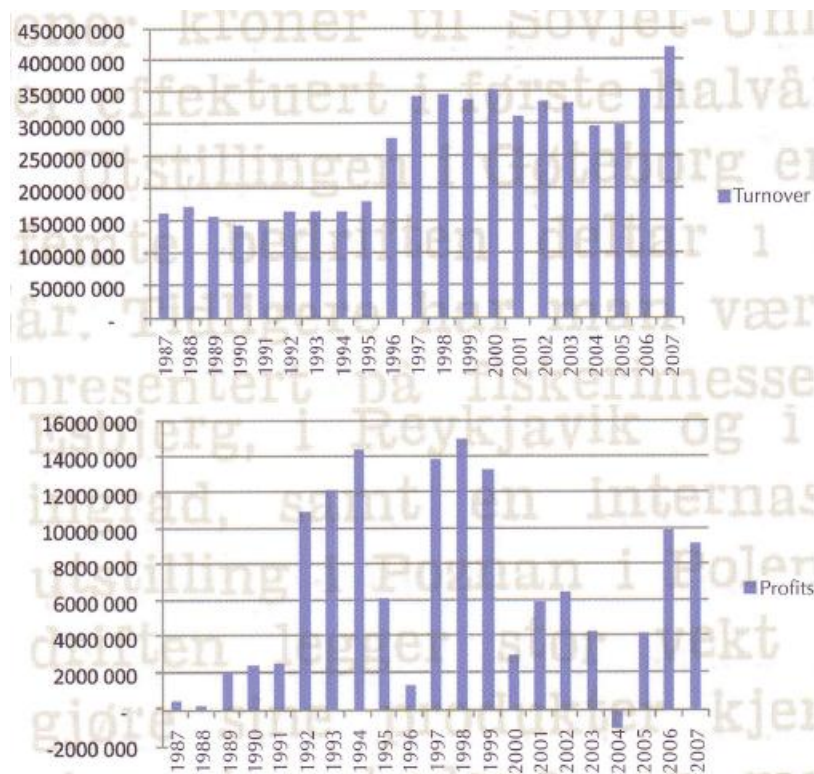


Figure 4.1 – Rapp Marine Group's key financial indicators during the 20 years (Olsen & Jenssen, 2009)

Empirical Findings

Another achievement is that Rapp Marine Group organization is today active in many countries, and employs about 400 people worldwide. The Group's headquarter is situated in the Northern Norway, in Bodø. Its subsidiaries Rapp Hydema AS and Rapp Bomek AS are also situated in Bodø, with management, administration and production facilities under the same roof. In addition there is Rapp Hydema Syd, which is Rapp Hydema's southern arm, as well as Rapp Pyrotec, which is Rapp Bomek's southern arm, both situated in the Southern part of Norway, not far from Oslo (RappMarine.com, 2011).

In order to be competitive in the long-run the company has been putting much emphasis on becoming multinational, in several ways and because of many reasons. First of all, the importance of being *closer to the customers*, having the marketing presence within the key places was the driving force. Secondly, to be able to fulfill the requirements of all the customers requires a lot of production facilities, which could enable *large-scaled production* concentrated in several places. Third ground for "going abroad" is the search for *cost reduction*, by choosing such countries as Poland, Russia and China for establishment of the subsidiaries. Another reason for internationalizing via creation of a worldwide network is to serve clients on their level, being able to speak one language with them, to live and work in the same culture, to have local focus and face local competition instead of global one. In such case the strategy is being adapted to the local conditions and "local rules", at the same time the knowledge and competence that has been acquired worldwide is used on the local market (Gjelsvik, 2000).

As to the ways of internationalization Rapp used different ones, depending on the local market conditions (e.g., size and growth rates), political regime, cultural aspects and the customers' network, correspondence of the Norwegian industrial cluster with the foreign one, etc. Joint ventures, daughter companies, FDI, buying and/or building facilities for production abroad, exporting of goods and license agreements are the ways how Rapp Marine Group has been establishing themselves on the foreign markets.

In 1980 Rapp Hydema established an office in Seattle. Since 1982 Rapp Hydema U.S. Inc. became a separate company. The Rapp Marine Group's business in the United States is organized as a separate consolidated Group, wholly owned by the Norwegian mother company. The American Group is organized under the parent company, Rapp Hydema U.S. Inc, a holding company with three wholly-owned subsidiaries that are controlled from the headquarters in Seattle. Rapp Hydema North-West is responsible for sales and service out of Seattle, plus operation of the workshop and local production. Rapp Hydema AK is the service arm of the Alaskan office and runs an engineering yard in Dutch Harbor. Rapp Hydema Subsea is responsible for the offshore market with offices in Houston, Texas.

Empirical Findings

The Group's Russian arm – Rossnor was established in 1992. In 1997 it was decided to restructure the activities in Russia through the creation of a new parent company in Norway, with subsidiaries in Russia. Accordingly, Eastern Trade & Consulting was set up as a fully owned Rapp Marine's subsidiary. At the end of the year new shareholders signed up, as agreed. Rapp Marine is today 30% owner of Eastern Trade & Consulting. I will go more into details concerning the Russian arm of Rapp in subsections 4.1.2 – 4.1.6.

Rapp Iberia is Rapp Hydema's arm in the Spanish market. The company is 100% owned by Rapp Hydema. Rapp Iberia is situated in Vigo, and operated by the Rapp Marine's long term partner and service sales manager. A Scottish division – Rapp Ecosse Ltd. is situated in Peterhead near the fishing harbor and has is an active supplier to the Scottish fisheries since early 1980s.

In January 2006, the board of Rapp Marine AS established a company in China as a part of the Group's strategy to reduce production costs. The new comer, Rapp Offshore Marine, was chartered in Qingdao.

The Serbian connection – Rapp Zastava, Kragujevac became a part of the Rapp Marine Group in October 2006. When Rapp Marine bought approximately 70 % of this Serbian workshop, the company changed its name from Zastava Masine to Rapp Zastava. Zastava Masine used to supply products mainly to the market in the Central Europe.

The Brazilian connection – the Group Rapp Bomek Comercio E Industria Ltda, of Rio de Janeiro, established in October 2006. The company is 90 % owned by Rapp Bomek and its objects are the marketing and manufacture of fire doors. In addition to the Rapp's own companies, it has active partners in Poland, and is associated with many central agencies around the world.

As was already mentioned the Group focuses on the two major market areas: fireproof doors and deck machinery. The fireproof door operation is mainly based at Rapp Bomek and Rapp Pyrotec, whilst the winches and deck machinery are based in Rapp Hydema and Rapp Hydema Syd. Group's associates in Serbia and China are generally involved in providing added production capacity which are supposed to sustain the competitiveness in the years ahead. Rapp's associates in the U.S. and Scotland offer facilities for production, repairs and maintenance and represent the marketing channel on the deck machinery market. The up-to-date and complete structure of the Rapp Maine Group's production facilities is presented on the figure A.4.2 in the appendices. The geography of Rapp's subsidiaries all over the world is shown on the figure A.4.3 in the appendices.

Now, when the history of the Rapp Marine Group is presented, let's have a closer look at the Group's Russian subsidiary – the Norwegian-Russian joint venture Rossnor, situated in the North-West part of the Russian Federation – the city of Saint-Petersburg. In the two following

subsections I'll discuss the history of the company, its structural changes during the previous years as well as light up other critical facts about the company. In subsections 4.1.4 – 4.1.6 I'll pay special attention to the strategic planning, interactions between the Russian management and the Norwegian Board of Directors, management control practices of the joint venture, highlight the challenges, which company faced in relation to running business in Russia, together with solutions, implemented by managers.

4.1.2 Inception of Rossnor

In this subsection I'm going to answer the following questions. What stood behind the idea of establishment of Rossnor? Why the company was created in Russia and specifically in Saint-Petersburg? Why did it happen in 1992, as well as who were the initiators of this “business across the borders”?

The beginning of 1990s was a “special time” in Russia. The Soviet system has failed and the process of change from plan to market economy was gaining momentum. This created certain opportunities for business as well as set up some challenges. Companies were no more fully owned by the government and became independent entities, at least were on their way to becoming all-sufficient players on the new Russian market. They gained “freedom” by privatization, but at the same time should have learnt how to survive in the new conditions, how to compete, how to be able to fulfill the customers' expectations.

Among others one important positive consequence of Perestroika⁶ is that it has made it possible the establishment of business relations between the Russian factories and plants with Western companies. The “iron curtain” that set barriers between the Soviet Union and the rest of the world was eventually lifted in the beginning of 1990s and the “doors” to the Russian economy have opened for the foreign investors. At that time everyone was full of optimism, looking into the future with hope that it would bring the changes to the best. However, the following years were hard and the changes didn't happen at once, but constituted a long lasting process.

The first steps that Rapp Maine Group walked towards Russia were done by its representative Bjørn Aaselid⁷ from the Group's subsidiary Rapp Hydema AS. He's been travelling to Russia in pursuit of a partnership since the first time in 1989. He was trying to get in touch with the Russian fisheries as well as production plants. The former could have been

⁶ Perestroika means restructuring or executing radical political and economical reforms, took place between 1985 and 1991 in the Soviet Union.

⁷ Bjørn Aaselid – chief executive at Rapp Hydema U.S. Inc. from 1980 till 1987, the first chairman at Rapp Marine Group from 1987 till 1989, chairman at Rapp Hydema U.S. Inc. from 1987 till 1991, general manager of Rossnor from 1992 till 1997, general manager and chairman at ETC since 1997, Marketing & Technology manager at Rapp Hydema AS since 2007.

potential customers of the Rapp's products on the Russian market, while the latter could help in establishing the production of the Rapp's goods on the Russian market. The city of Saint-Petersburg was chosen as a place of creation of a joint venture in many respects due to being a technological centre as well as a huge transport node.

Aaselid was a prime mover in the drive to establish an effective and commercial relationship with the Russians. Undoubtedly it was a demanding job, in a country with very different traditions, different political and economical systems and a very different culture. Another contributor to the establishment of a joint company in Russia was a former partner of Rapp Marine Group in their efforts to enter the Polish market, namely Romual Czejerniewski. His knowledge of Russian fisheries and Russian fisheries management was of a huge help (Olsen & Jenssen, 2009).

There was a two-fold purpose behind the decision by Rapp Marine to establish a Russian arm, Rossnor. First, Rapp Marine was keen to secure a foothold for promotion initiatives in the major fishing nations, including Russia. Second, Russia was interesting because it could provide manufactured components at lower cost that was seen as an opportunity for maintaining the competitiveness in the long term. Moreover, Russia could provide a good combination of high-educated specialists together with low salary level, which was an advantage. It also was clear for many that enormous Russian fish fleet was in a bad condition after the collapse of the USSR and needed extensive renovation. Russia didn't have production of such equipment at that time, while Rapp could produce winches and other deck equipment for the fishing boats and ships using its unique experience and advanced technologies.

Finally, Norwegians managed to find people who were interested in making business with them. Particularly, there were two organizations: Kirovski⁸ and Giprorybflot⁹, from which their potential Russian partners came from. Kirovski is a major Russian machine-building plant, which was established in the 19th century. Aaselid in his interviews said that after the first visit to Kirovski he was impressed by the production facilities that Russia possessed and that he couldn't imagine production facilities of such a scale in Norway at that time. Giprorybflot was a technical department of the Soviet Ministry of Agriculture, responsible for the fisheries in the Soviet Union and later in Russia.

In November 1991, everything was in place for the final negotiations in Russia to set up the new company of Rossnor. A delegation from Rapp Marine, headed by Thor P. Andersen¹⁰, Nils Rasmussen and Bjørn Aaselid travelled to Saint-Petersburg in order to finalize and sign a

⁸ Today Kirovski offer products within machine building, metallurgy, power industry, production of high-precision parts, hydraulic machines, meteorological services, certification, etc.

⁹ Nowadays Giprorybflot is a State Project R&D and Design Institute (<http://www.grf.spb.ru/>).

¹⁰ Thor P. Andersen – current Managing Director as well as the largest shareholder of Rapp Marine Group (According to Olsen & Jenssen (2009) he owned 37,57% of the total equity in 2007).

workable agreement. The ownership was divided as follows: Kirovski Works - 30%, Giprorybflot - 16%, Alfa 04 - 14%, Rapp Marine - 20% and Bjørn Aaselid - 20%. It was six parts Russian, four parts Norwegian (Olsen & Jenssen, 2009). The structure of the company of that time is presented on the figure 4.2.

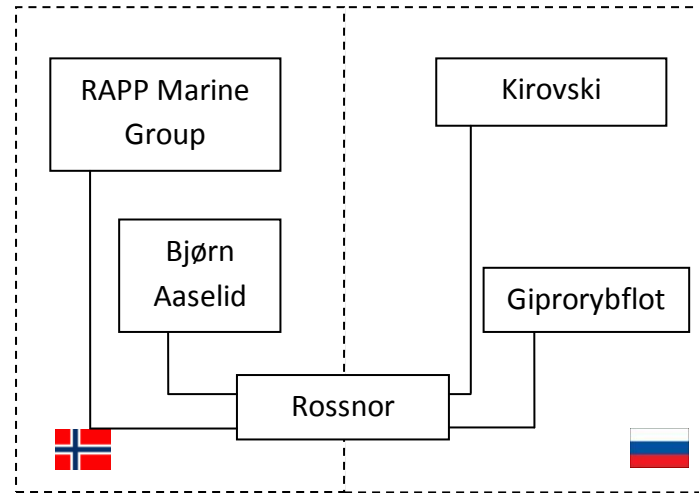


Figure 4.2 – Structure of Rossnor from 1992 to 1993

The Board of Directors was presented by four Russians, namely Mikhail Blinov, Vladimir Romanov¹¹, Vladimir Kiselev and Andrey Polyakov¹² as well as two Norwegians: Andersen and Aaselid. The latter was elected as a chairman. Boris Alekseev, one of Blinov’s trusted engineers at Kirovski, was appointed by the Directors as a chief executive. The name of the newly established company was proposed by Romanov. All the necessary registration documents were prepared by Polyakov. On the 20th January 1992 Rossnor was registered with the authorities in Saint-Petersburg. It’s remarkable that the constituent documents have been signed by Vladimir Putin, Prime Minister and ex-president of the Russian Federation, who has been holding a position of a chairman in the committee of foreign affairs of St. Petersburg at that time.

The equity was set to be approximately NOK 1million. But the working shareholder’s equity constituted NOK 500’000, from which NOK 400’000 were paid in by Rapp Marine and Bjørn Aaselid. In addition Rossnor got the “pack” of 35 employees from Kirovski, including 18 engineers.

However, as time went on, two of the partners, namely Kirovski and Alfa 04, became less interested in the venture, and sold their share in the private stock, which increased the Norwegian

¹¹ Vladimir Romanov – head of Giprorybflot. He played an important role in the beginning (e.g., helped in organization of the office in 1992), but later he “took the back sit” and didn’t play any serious role, except formally being a minority shareholder.

¹² Andrey Polyakov has been working for Rossnor since its foundation in 1992. He has graduated from SPBU as a specialist within the Portugal philology, has been working with fishermen in Assembly of the Republic of Mozambique for several years. After that in 1988 came back to USSR and was employed by the international department of the Giprorybflot. Since 1997 he’s been a general director of Rossnor and Rossnor Marine as well as the Chairman at the Board of Directors of ETC-Stalcon.

holding up to 60%. Thus, already one year later the company has been restructured. The new structure is shown on the figure 4.3.

According to Aaselid during the first 6 – 9 months nothing has happened. The responsibility for that was placed on the chief executive Blinov, who was immediately dismissed, and his place was taken by Aaselid. At that time Rossnor was a pure engineering firm, it was processing the orders and selling the goods, while the production was outsourced at the third-party sides. Also Rossnor was responsible for developing the design and setting the specifications for its external producers. One of such external producers was Kirovski, but soon it became extremely problematic to continue production at Kirovski, one of the most serious reasons was permanent fail to deliver goods on time, for example, one order that should have been shipped to the client in the summer 1992 was partly finished only in the spring 1993 (Bang and Bourmistrov, 1996).

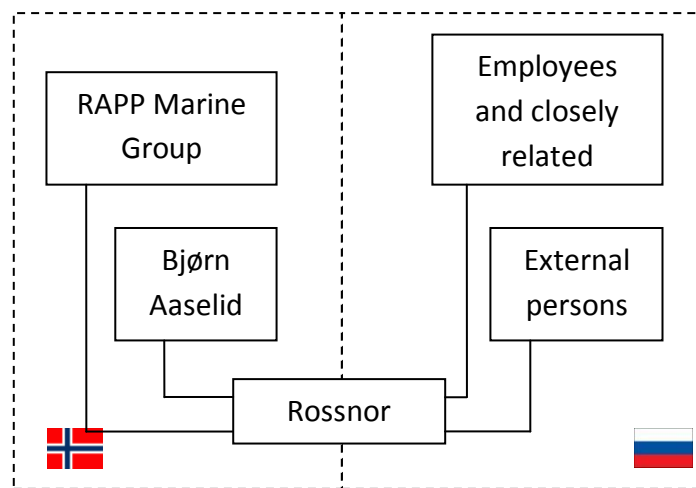


Figure 4.3 – Structure of Rossnor from 1993 to 1996 (Bang & Bourmistrov, 1996)

Rossnor looked for other facilities to produce their goods in and found a plant in Tolyatti, where the production for Rossnor began 1993 but was finished already in 1994, because of the unreliability of this supplier. Then the production was moved back to St. Petersburg, where Rossnor was buying up to 80-90% of goods from the external producers.

When Aaselid was assigned a general manager, he established his “rules of the game”, which the company had to follow. These “rules” concerned such issues as salary, working time, overtime provisions, transportation of the employees to/from the office as well as better routines for the registration and presentation of the accounting information. Much effort has been put into the quality improvement, especially right after the “Tolyatti times”. For example, an internal quality control system was introduced and implementation of the Norwegian quality standards has begun. That included documenting all processes which have been done on quality improvement with the further analysis. Nevertheless it didn’t have an everlasting effect. Many of the goods, produced at the Rossnor’s partners’ sites, were defective and required remaking or

debugging, which has usually been done at Rapp's facilities in Norway. Among the reasons around the quality problems at that time Bjørn highlighted one, namely the Russian quality requirements differ for export products and for those, which are produced for the internal use. The latter are of the low priority when it comes to the quality, because they didn't give "hard currency". Although Rossnor was exporting goods, it was perceived as a Russian company (Bang & Bourmistrov, 1996).

The period until 1997 can be called as a transitional one, the company tried to find its niche in Russia, reliable partners in order to be able to fulfill tough requirements of the Rapp's customers, who were the final consumers of the ship equipment, produced in Russia. The initial plans of shareholders of not just "entering Russia", but entering the Russian market and producing deck equipment for the Russian fleet, crashed by the rocks of the Russian reality. Polyakov said in his interview that Russia simply doesn't have such kind of a market. Thus, Rossnor turned out to be Rapp's "unintended production outsourcer".

In 1996 it was decided to continue the restructuring of the Russian activities through a creation of a new parent in Norway, with subsidiaries in Russia. That was important, because the previous ownership & reward system of Rossnor didn't give the desired results. Norwegians were willing to restructure the company according to their views and experiences, in such way that had functioned well in Norway. That implied involving Russian managers deeper into the joint venture by sharing the ownership rights with them. Norwegian partners believed that if managers would be owners at the same time, it should be in their best interests to strive for better performance and to work harder on the achievement of higher results, because, thereafter, they would be rewarded by dividends as well as could get other benefits. It seemed to be a reasonable step forward to share the responsibilities among both sides. Besides, the desire was to place some of the Russian partners in the Board of Directors and, in addition, assign them on the top-management positions. It was also supposed that the new structure would promote Norwegian business culture in the Russian subsidiary, lead to more clear-cut accounting, aid in solving quality, delivery and other problems.

4.1.3 Rossnor since 1997 until 2011

Eastern Trade and Consulting AS was set up as a fully-owned Rapp Marine subsidiary. Already in the autumn 1997 new shareholders signed up, as agreed. At year's end the shares were distributed as follows: Rapp Marine – 30%, Bjørn Aaselid – 30%, Andrey Polyakov – 20%, Vladimir Romanov – 10% and Aleksandr Kurganov¹³ – 10% (figures 4.4 and A.4.2). On the Russian side, ETC spawned two subsidiaries: ETC-Stalcon, LLC (production of fishing

¹³ Aleksandr Kurganov – ex-foreman at Izhorski Factories (see information below), general director of Stalcon-ETC from 1997 till 2006. Currently runs his own business, producing metalwork at Izhorski.

equipment, gearboxes and their components, winches and winch parts, as well as other ship equipment) and ETC-Morcon, LLC (engineering and design, quality control, marketing, sales and logistics) where the employees had 48% of the shares. After a short space ETC-Morcon was replaced with the new company Rossnor Marine, LLC, which took over all the, mentioned above, responsibilities. 100% of Rossnor was owned by ETC. Ownership structures of Rossnor and its subsidiaries are shown on the figure 4.5, organizational chart – on the figure 4.6.

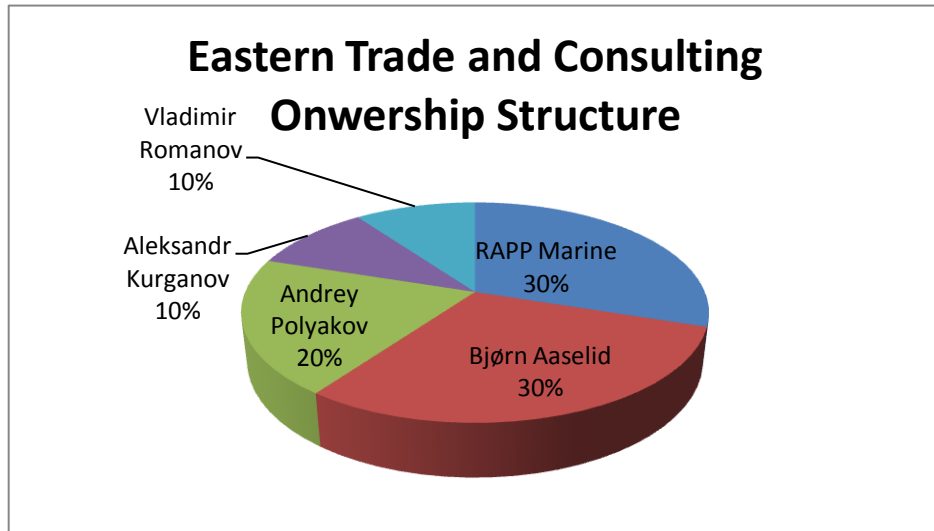


Figure 4.4 – Ownership structure of ETC (1997 – 2011)

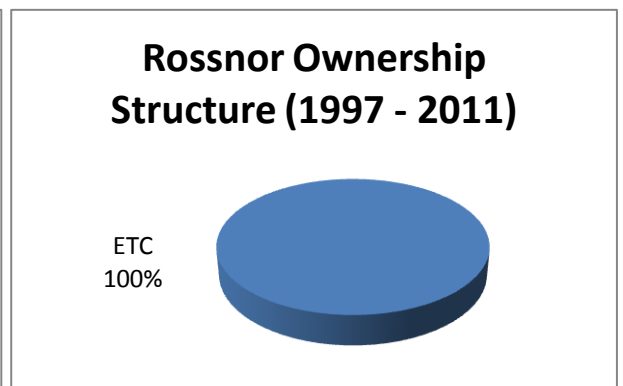
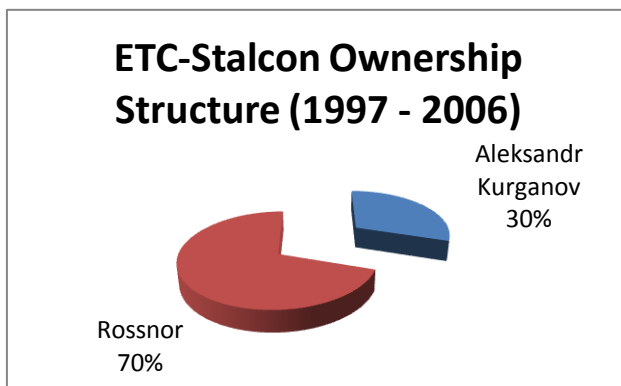
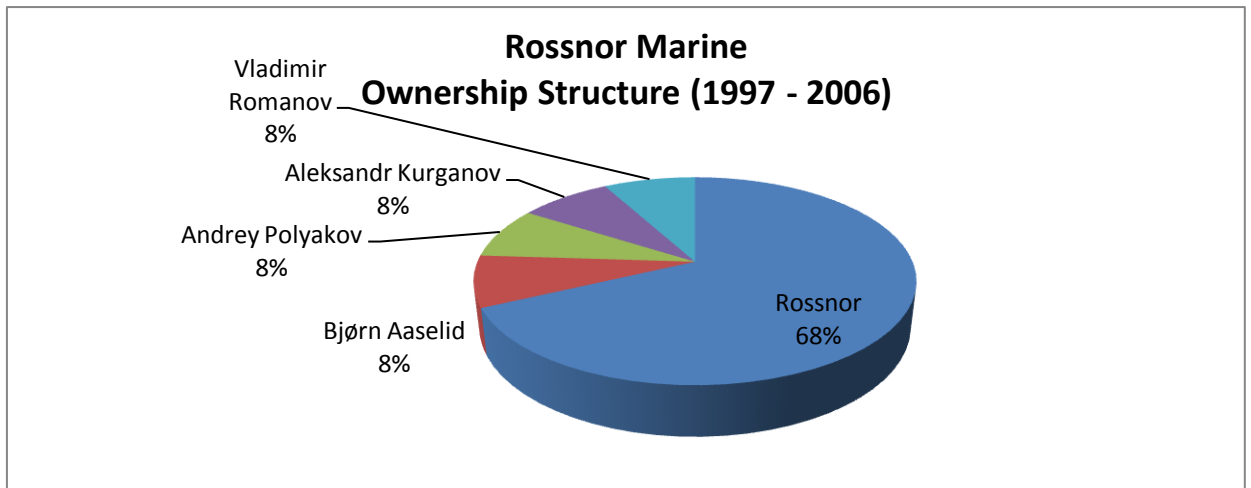


Figure 4.5 – Ownership structures of Rossnor Marine, ETC-Stalcon and Rossnor

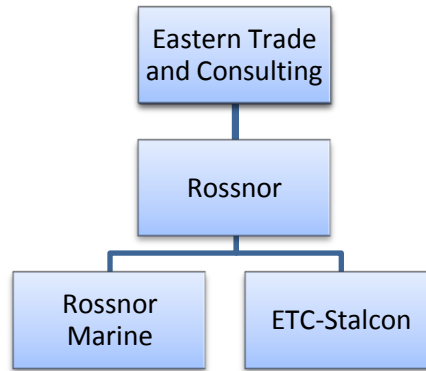


Figure 4.6 –Organizational chart of Rossnor

“The idea of creating independent production department was important, because of the many reasons” – thinks Polyakov. Increase in demand on the products from the Rapp’s customers, long-term plans to work in Russia and, as a result, the need to have a permanent and confident business partner together with still low level of labor costs triggered the wave of changes in the structure of Rossnor. In addition the negative experience with Kirovski and Tolyatti strengthened the ambition to establish long-term relationships with the new producer and make him a part of Rossnor.

Andrey Polyakov, who has proved himself during the first 5 years of cooperation, was assigned a general manager of both Rossnor and Rossnor Marine, while Bjørn Aaselid was appointed a general manager at ETC. Rossnor became a holding company, which actually did no production or sales, but was an owner of 70% of the ETC-Stalcon’s shares together with Kurganov, who had 30%. Also, Rossnor was the owner of 68% of the shares of Rossnor Marine from 1997 until 2006, while the rest amount was proportionally divided between the key persons: Aaselid, Polyakov, Romanov and Kurganov, thereby each of them owned 8%.

According to Polyakov and Aaselid such structural changes have led to the positive trend. Production volume has increased sharply after 1998, and in certain periods, 300 gear units were being produced each year. In 2000, gearbox number 1000 left the shop in Russia. Besides manufacturing gears, Rapp’s Russian connection started production of ship equipment for export to Rapp Bomek, which sometimes reached significant volumes (Olsen & Jenssen, 2009). This rise was also urged by the economic growth after the Russian financial crisis of 1998 as well as the overall rise and recovery of the country’s economy during the several following years. During those “peak years”, Rossnor’s subsidiaries had approximately 120 employees.

Empirical Findings

In the period from 1997 to 2001, although negotiations with Metallist¹⁴ persisted, ultimately they were fruitless (see subsection 4.1.4). In 2001 Rossnor bought and furnished a welding shop at Izhorsky¹⁵, which, however, proved too small for machining and assembly operations. In 2002 annual export to Rapp Marine declined, from the height of 300 to only 40 gearboxes in the bad years (see figure 4.7). Other markets had to be found to cover the losses. The Stalcon-ETC's managers were asked to find a market for 70-80% of production capacity at home. Things went smoothly until 2005 when, without warning, the export market abruptly exploded and all the resources had to be turned to export market again. This time the market growth was not a sufficient condition for the company's growth, on the contrary, new challenges appeared, which led to the production and financial recession. Structural changes were implemented in the following year.

In 2006 the ownership structure was changed, as Rossnor's partner Aleksandr Kurganov, responsible for production, has lost trust of the Board and was dismissed. Though his 10% of ETC's shares were still in his hands, his share in Rossnor Marine (8% on the figure 4.5) was withdrawn. Rossnor was holding 76% of the Rossnor Marine's capital, whereas ETC-Stalcon became under the full control of Rossnor, but it stopped operations, and didn't have money on the bank account. Since that time the production became another responsibility of Rossnor Marine.

The next four years were the most difficult years for Rossnor, according to Polyakov. The company's financial position was changing from bad to worse. There were not enough production facilities to meet the customers' obligations, so, the Board had to look for the other production sites and think how to decrease continuous losses. As was mentioned in subsection 4.1.1, Rapp has launched production at its Chinese subsidiary Rapp Offshore Marine as well as Serbian connection Rapp Zastava, which together could replace Rossnor in the future that was becoming more and more uncertain for the Group's Russian arm.

In 2009 the leasing agreement with Metallist has expired, so Rossnor had to leave the site for some other place, which was not easy to find. According to Aaselid during 2008-2009 the company was producing from around 50 units annually at their left facilities at Metallist together with their welding shop at Izhorski. The former was the last property that Rossnor had in Russia and it was sold by Polyakov in the end of 2010. By the 1st of January 2011 all the employees of Rossnor Marine have been dismissed. It's a noteworthy that I met some of the engineers, which

¹⁴ Metallist is a plant specializing in polymer production, foundry, metal working and metal frameworks, situated in St. Petersburg (<http://www.zavodmetallist.ru/>).

¹⁵ Izhorsky plants is a heavy industry factory, specializing in engineering, production, sales and maintenance of equipment and machines for the nuclear power, oil & gas, mining and production of special steels, etc. Izhorsky is a part of the OMZ Group – one of Russia's largest heavy engineering companies. The factory is located about 20 km from St. Petersburg (<http://www.omz.ru/eng/>).

have been working for Rossnor Marine for many years, at the Kurganov's office, while interviewing him. It proved that they've been employed by him after the shutdown of Rossnor.

Summing up the nineteen years of Rossnor's production history it seems reasonable and demonstrative to draw an approximation of the graph, representing the company's lifecycle from inception to the last shipping. The drawing is presented on the figure 4.7 in the form of the number of products sold annually as a function of time. This graph is based on the information taken from the minutes of the Board of Directors meetings, financial reports and production plans of ETC-Stalcon and Rossnor Marine, provided by Kurganov and Polyakov as well as the interviews with Bjørn Aaselid.

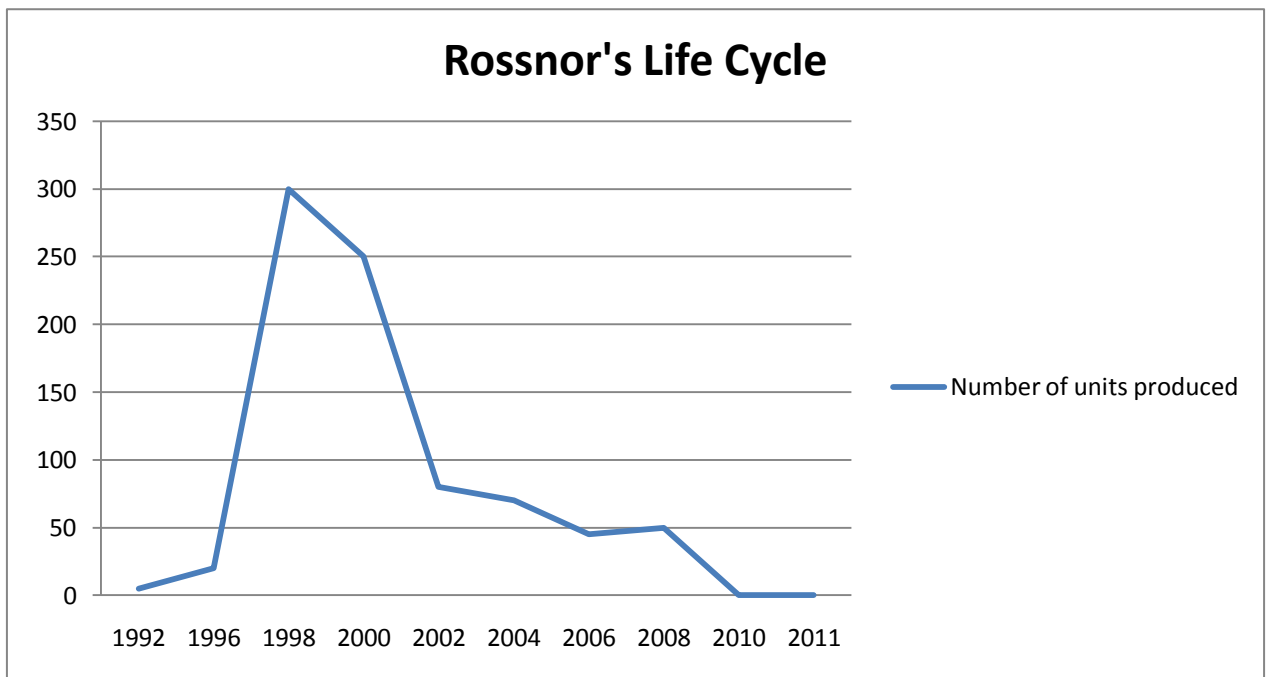


Figure 4.7 – Life cycle of Rossnor (from 20th January 1992 to 1st January 2011)

The graph shows that the “golden age” of the production began after the restructuring in 1997 and lasted for the five years, then the market became unstable and the production rates decreased significantly. In 2006 a decrease occurred due to the problems with Kurganov, which resulted in moving the main production from Izhorski to Metallist. This decrease in production could be much higher, but it was smoothed due to the market decline. In addition before these troubles another serious event occurred.

In the end of 2005 – beginning of 2006 company involved itself in a risky venture of producing a big batch of rather unusual products for the company. According to Aaselid it was a kind of ship equipment that they hadn't done before in Russia. Basically, the major challenge was that the elements, demanded by the customer were much bigger in size, than ETC-Stalcon used to produce before. Thus, manufacturing of such goods required special machine-tools, which company simply did not possess. Management, with the blessing from the Board, decided

to take a risk and to participate in the project, by using other facilities at Izhorski. Kurganov had partners who could do this, because the factory possessed enough equipment for doing this. Aaselid said that everything went mad after a short time. The counterparts began blackmailing Rossnor, asking for higher rewards for their services, and soon it became impossible to produce the batch in Russia. That was an example of a “hold-up problem”, when untrustworthy counterparts used their bargaining power, willing to earn bigger profits. Immediately, the decision to move the production to Serbian Rapp Zastava was taken. Both Rapp Marine and Rossnor had lost a lot of money in this “gamble”. That was one of the first critical points, after which Rapp has boosted the search for alternative production sites abroad, which could replace Rossnor as a low cost producer. Afterwards, from the year 2006 number of products produced and sold was reducing until it reached zero in 2010. Thus, officially the company doesn't exist since 2011.

Now let's see more detailed on the planning and control systems in the company. In the next subsection I'll present the empirical data, related to the organization of strategic planning in Rossnor, discuss who were responsible for that kind of job and what kind of challenges they did face. I'll focus mostly on the period from 1997, because at that time the company was functioning more or less stable without changes that used to happen rather often during the previous years. Moreover, the period before 1997 was scrutinized by Bang and Bourmistrov (1996).

4.1.4 Strategic Planning in Rossnor

Norwegian partners owned the controlling block of ETC's shares (figure 4.4). On the language of business it means that they had all the power in making the strategic decisions concerning investments, launching or shutting new product lines as well as many other issues. On one hand, Aaselid and Rapp Marine had the decisive power because of the access to the sales market. From the other hand, they were distanced from the Russian office both physically and culturally, because the only Norwegian person, who's been spending time in Russia, was Bjørn Aaselid, but in the period after 1997 he's been spending less and less time there, arriving only for participation in the Board of Directors Meetings and in some extraordinary cases, when the problems with production, export or whatever occurred and his presence was required (usually at least once in a month).

As long as both Russian and Norwegian partners were shareholders of Rossnor (via ownership rights in ETC; figures 4.4, 4.5), they were involved in the strategic planning formally, but if we have a closer look, we'd say that Norwegian side, and particularly Rapp Marine had more authority in this case, because they were in charge of the sales plan development depending

on their customers' demands, which was the determinant and affected the level of activity in Rossnor's subsidiaries. The plan of sales was the basis for the development of the annual production plan in Rossnor. Thus, though the strategic planning lied within the formal responsibilities of the international Board, the real strategic decisions were undertaken by the Norwegian shareholder Rapp Marine Group. Thus, the Russian Board Members didn't have much real power in making strategic decisions. The strategic influence in the joint venture can be sketchily introduced in the following way (figure 4.8).

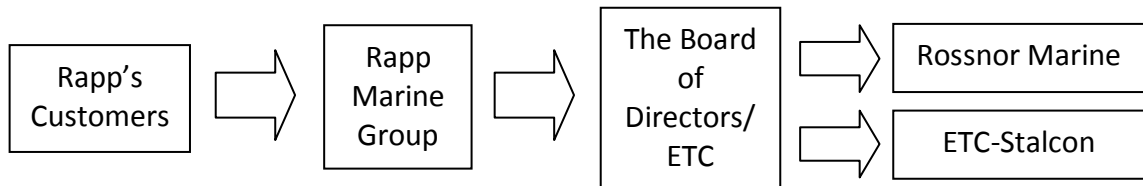


Figure 4.8 – Strategic influence on Rossnor.

One important strategic decision has been taken by the Board, concerning the acquirement of the facilities. In 1998-1999 Rossnor got the opportunity of buying the facilities at Metallist at a price of \$640'000, which was a fair market price at that time. The Board decided to lease it, by paying a half of the price immediately and repaying the rest amount during the following 10 years. It seemed as a very reasonable solution, and at first everything went good. Later the owner of that site changed his opinion about the price, and suggested paying a new price of \$1 million instead of the rest amount of \$320'000. The Board was shocked, especially its Norwegian side, who could hardly ever imagine such behavior from their counterpart.

According to Polyakov the new price was still a market price, because during the 1990s price level on real estate as well as land have been increasing rapidly and today such facilities can cost even tens of times more. Anyway that was a vivid example of unpredictability and unfairness of the Russian business partners, proving that a “fixed deal” is never fixed in Russia, unless the goods are shipped to the customer. The contract expired in 2009, and Rossnor had no other choice as to leave the site at Metallist.

In 2005-2006 the company was involved in one big “gamble”, as was mentioned in 4.1.3, which proved to be extremely detrimental. Polyakov called it a “risky venture”, where Rossnor and RAPP Marine lost big amount of money. “That was the beginning of the end” – said Aaselid, implying the end of operation in Russia. In the same year Chinese subsidiary of Rapp Marine was established as well as the Serbian connection of the Group was acquired, signaling that the Board was losing faith in Rossnor, and preparing “the way for retreat” from Russia.

Bjørn Aaselid said in the interview that no matter how much shares one owns in a Russian company, whether 60 or 80%, he still could has no real power and strategic influence, equivalent

to his share. The problem with corporate governance and shareholders' rights in Russia has been a question for discussions in several recent publications (Adachi, 2010; Terterov, 2005; Willer, 1997). In Rosssnor the problem has reached its superlative in 2006 when the general manager of ETC-Stalcon Kurganov decided to buy extra facilities at Izhorski, without permission of the Board, financing it through the corporate revenues. That was a tremendous shock for the Board and, perhaps, another critical point. Thus, Norwegians experienced that, in Russia, majority in the ownership doesn't give control.

Except these outrageous events the company has experienced other problems, related to the operations in Russia, which seemed incomparable to the mentioned above. Many of such problematic issues were the topic for discussion at the Board Meetings, which usually took place 4 times a year or more often, if needed. All interviewees affirmed me that these meetings were serious and important both for the company and its employees, where the strategic decisions concerning the future of the business have been made. In all the companies: ETC, Rosssnor, ETC-Stalcon and Rosssnor Marine BM were held separately. Usually, there were from 5 to 8 people present at each and every BM and a secretary, who was keeping a record of the meeting. Usually the final product of the meeting was a report and protocol. The production quality, the labor discipline, technical questions as well as financial issues were on the agenda.

If we have a look at the example of the agenda for the Directors Meeting in ETC-Stalcon (figure A.4.5 in appendices) for the 2001, we'll know that there were 7 participants, including general managers of Rosssnor Marine, ETC-Stalcon, ETC as well as chief accountant, auditor, and minority shareholder as well as one external person was invited. During the meeting four main issues were raised. First of all, the report from the auditor on the physical evaluation of the inventory with reference to the instruction from the chairman of August 29, 2001 has been discussed. Second, financial reporting for the three quarters of the year 2001, including profit and loss account, balance sheet and cash flow statements were analyzed. Next is the production program and financial forecast for the rest of the year 2011, which includes report on deliveries, quality review forecast of the production of gearboxes, winches and ship equipment for the rest of the year, detailed cash flow projection based on the planned production, etc. The last point in the agenda is the development plan for ETC-Stalcon, which defines the strategy and the goals, the next date for the Board meeting, production organization, production and financial planning, investment plan and others.

It's curious to see how the reality differed from that "how it should be", which was described in the document named as "The Duties of the Board", developed in order to clarify the rules, regulations as well as functions and areas of responsibilities of the Board.

4.1.4.1 Duties of the Board

A model for the Board's functions that was implemented in the joint venture consisted of *strategy function*, *control function* and *service function*. The first function concerned the Board's contribution to staking out a course for the future. As to the *control function*, the CEO shall be responsible for the general management of the company and shall follow the guidelines and directives issued by the Board. General management does not include matters that are of an unusual nature or great significance relative to the company's situation. The CEO may only decide such matters if the Board has empowered him to do so in the individual case, or if the Board's decision cannot be awaited without major inconvenience to the company's operations. The Board's duty is also to ensure that book keeping and asset management are subjects of proper control. The CEO shall ensure that the company's books are in accordance with statutes and regulations and that the company's assets are managed in a proper manner.

The service function of the Board assumes the individual Director's function as advisor to the general manager. Moreover, direct contact between general manager and the Director should be accepted by the Chairman.

The Board's management function is the highest agency of the company. The Board issues guidelines and directives via: strategy plan, budgets/operating plans, board decisions. The Board must decide what it regards as matters of an unusual nature or major significance. These are normally matters that involve: operations not included in the strategy plan, the impossibility of realizing the budget/operating plans, the matter being in conflict with previous Board decisions, major changes to bookkeeping and/or internal control as well as rapid and unexpected change of framework conditions.

In the light of the above the following shall be submitted to the Board: 1. The annual accounts. 2. Budgets. 3. Sale of real property and major fixed assets. 4. All individual investments. This applies also to investments that already are included in an investment budget, if any. 5. Borrowing. 6. Mortgaging and new guarantees. 7. Lending to employees and others, apart from normal advances on pay. 8. Changes in financial routines or internal control. 9. Financial reporting as fixed by the Board. 10. New appointments over and above budgetary frameworks or major organizational changes. 11. Amendments to previous Board decisions. 12. Changes to external or internal framework conditions that materially alter risks or opportunities. The general manager may also submit any matters he or she wishes the Board to consider.

In addition the Duties of the Board included the practical implementation issues:

- dates of meetings (BM should be held on a regular basis, minimum once a quarter);
- calling of the meetings (meetings are to be called at seven days' notice);

- agenda (should include: approval of the minutes of the previous meeting, briefings of general operational report, profit and loss account for the period, cash flow statement, any market changes, resources and raw materials, organization and personnel, framework conditions such as new legislation, as well as budget, strategy, insurance);
- chairing of meetings (depends on the personal style of the chairman of the Board, but should have a certain structure);
- decisions (all issues shall be concluded with a resolution, which may be to note or acknowledge something, to postpone or dismiss a matter, or take a concrete decision);
- minutes (the Board must decide whether it wants full minutes to be kept, or merely a record of its resolutions);
- follow-ups (the Board ought at regular intervals review previous cases to see how these are being followed up by the administration).

4.1.4.2 Minutes of the Board Meetings

Now let's see on the Minutes of the BM, which were kindly provided me by Andrey Polyakov. On the figures A.4.4 – A.4.6 in appendices the following documents are presented: the Minutes of the Board Meeting in Rossnor Marine in 2004, the Agenda for the Board of Directors Meeting at ETC-Stalcon together with the Organizational Chart of the company and the Minutes of the BM in Rossnor and Rossnor Marine on September 27, 2005.

The Board minutes contain the review of preliminary financial statements, projection of the cash flows, management reports on executions of previous Board decisions, reviews and approvals of the budgets, delivery/shipping plans, order back log and forecast, discussions around the training program for the engineers¹⁶, and many other issues.

It seems that that the information presented in minutes corresponds to what is stated in the Duties of the Board document and, added by the financial statements and other reports, give rather clear-cut picture of the company's current situation, its strategy, organizational structure, finances, current activities and production in which company is involved.

According to the document, several employees of Rossnor Marine were assigned to make a market study on the possibilities for development in different dimensions on the Russian market, within mining, fishing, shipbuilding, civil construction and oil & gas industries. They were asked to find relevant information about the industries and to present it in Russian as well as to make weekly summaries in English language. These were the futile attempts to find any opportunity to produce winches and gearboxes for the internal Russian market.

¹⁶ Training took place both in Saint-Petersburg and Bodø. Engineers were attending lectures and refresher course. Two Engineers were brought to Rapp Bomek in Bodø, where they have been working until 2011.

Thus, all the formalities, stated in the Duties of the Board, were followed. Board meetings were held regularly and in accordance with stated requirements. Before the meetings, agenda was prepared and disseminated to all the participants. During the meetings the minutes of the boards were note-taken, current issues, were discussed according to agenda and, then, the decisions were made by the Board. But when it came to the implementation of these decisions by management, the problems began. It was often the case when Russian managers just didn't put into practice what Board had determined, did it not fully followed the Board's instructions or did appropriate actions too late. An example of such "lack of action" could be the inability or unwillingness of the Russian management to reduce the staff of Rosssnor Marine, which was strategically important due to the market recession in 2003 (and in the later years), which resulted in huge losses.

In the next subsection the discussion will continue on the lower corporate level, everyday problems that management of the joint venture has been facing and also the cultural differences, challenges related to paying taxes, trust in inter-organizational relationships, "white and black salaries", employees' behavior as well as the solutions that were undertaken for overcoming some of these problems.

4.1.5 Challenges for Management and Operational Controls in Rosssnor

Manufacture of winches and gearboxes was the core of the business. The production process of such complicated equipment, which has to meet the highest requirements of quality, reliability and safety, can hardly ever be unproblematic.

Under Polyakov's and Aaselid's opinions the instability and sometimes unpredictability of performance in Rosssnor was coming from the production department – ETC-Stalcon. The major problems were the quality and the delivery on time in compliance with the production plan. That task was often infeasible for the production department of Rosssnor, which led to the delays in shipping of finished goods, need to complete some operations at Rapp's facilities in Norway, and as a result the company bore extra expenditures. Polyakov and Aaselid told that ETC-Stalcon has never been driven by quality and that the goal was just to make the product without providing high quality. That, probably, has the roots in the soviet system with its plan economy, where every worker had a plan that he had to perform during the certain time frame and there was no discussions about the quality. In order to control the situation around the production of goods managers used interactive control, one example is meetings.

4.1.5.1 Interactive Control

There were weekly meetings on production, if the situation required, they were held more often. Problems associated with execution of the current orders and the course of production

were major issues raised on such meetings. Technical problems, quality issues as well as financial matters were discussed during these sessions as well. All the key persons were present on the meetings, such as a head of production department, general managers of both subsidiaries, specialists from the quality control department, designers (for solving matters of dispute and explaining the technical issues) and the production planning executive. All in all there were around 8-10 people present on this weekly meeting. Polyakov said that for the production department such meetings were mostly a formality, but not the real signal for immediate actions. Often the same problems (quality, delivery time) repeated for many times without serious changes. Also there were meetings on export, marketing and logistics, organized by Rossnor Marine, focusing on everyday issues, connected mainly to the customs as a serious bureaucratic barrier for exporting.

Since 1997, when Polyakov became general director of Rossnor, Aaselid became spending less and less time in Russia, comparing to some periods in the 90s, when he was living in St. Petersburg from time to time. The general manager of ETC exercised control from his Norwegian office. His answer on my question how he did it, he began, saying that the managers in Russia were already “grown-ups” and didn’t need to be “babysat”. The company was functioning rather stable and his presence was not necessary. Nevertheless, Bjørn has been visiting Rossnor regularly. Management had goals and objectives, formulated at the BM, and recorded in the minutes, in addition there were developed the guidelines and procedures for the management of both Russian subsidiaries (see below). Besides the BM, personal contacts between the Norwegian and Russian parties existed in a way of telephone dialogues, e-mails and reports.

The main performance measure for Bjørn Aaselid and Rapp Marine was simply the result, the revenue and the profit for the period (month, quarter, year) and it’s comparison to the budgeted amount. Thus, the focus of the Norwegian Board has shifted from direct observations and personal interactions to more reliance on accounting. In the first years management was occupied preparing budgets, which were comprehensive, precise and reflected all the activities, but as time went, the quality of budgets deteriorated and they were becoming mostly a formality, rather than a dashboard for exercising control. Now, let’s see at the formal requirements or “boundaries” that Board established for the management.

4.1.5.2 Guidelines and Procedures for the Management

The guidelines, which have been developed for the management of both subsidiaries of Rossnor: ETC-Stalcon and Rossnor Marine, consisted of four blocks:

1. Company scope of activities;

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2. Formal corporate matters;
3. Accounting and finance;
4. Production and QA.

General presentation of the main areas of activities of the companies as well as the restrictions regarding the sales of products by subsidiaries is the issue of the first block. For instance, any export sales should have been made through ETC and/or companies in Rapp Marine Group¹⁷, all contracts and activities should have been approved by the Board prior to their initialization, based on presentation from the management, which must satisfy specific conditions, clarified in this block.

The second part of the guidelines discussed the formal procedures and certain actions, which should have been rigorously performed. These procedures did establish the rules, regarding the frequency and the proper documentation to be prepared for the BM and General Assembly of Shareholders meeting, assigned responsibilities for preparing documentation, etc. Besides this, management was obliged to prepare action lists for all pending issues/activities with the responsible persons. Progress reporting and management review of the “situation” together with intermediate auditor’s report should have been presented for every BM. This block also highlighted the necessity to develop the strategy as to employees’ professional level, working condition and culture, salary level and further professional development. Working languages in the company should have been Russian and English as well as all documentation, presented to the Board were required to be presented in both languages. Insurance coverage for assets, employees and liabilities were demanded to be considered continually.

The next part of the guidelines established requirements for the accounting and financial procedures in the subsidiaries, by setting general procedures, reporting schedule and clarifying the financial information that must have been presented to the Board. All salaries, rent and utilities costs, must have been written off as costs in the period, which they applied to. Inventory and work in progress should only include cost of material and external services, directly related to the products placed into inventory and work in progress.

Reporting schedule set the deadlines for the monthly, quarterly, and annual income statements’ and balance sheets’ enclosures and also required accountants to prepare the cash flow projections for the following three months. The Board, inter alia, required such information as income statements for the period, compared to the budget, balance sheets with breakdown of main figures, cash flow forecast, cost calculations per sales invoice, list of transactions and the

¹⁷ Around 95% of the products were sold to Rapp Marine, which later sold them to its customers all over the world: ship owners, offshore oil & gas companies, etc. (source: Aaselid and Polyakov)

breakdown of main figures in the reports, advance payments from customers, accounts receivables from customers, cost calculations per sales invoice.

The production and QA section set the rule that internal planning and progress reporting to the customer should have been continually raised to a higher level and corresponded to the customer requirements. In addition Board requested the management to establish and maintain the QA system, which corresponded to the generally accepted practice and customer expectations.

Though the guidelines were reasonable and clear-cut as well as identical for both ETC-Stalcon and Rossnor Marine, it proved to be not so easy to follow some them, especially it was challenging for the production subsidiary to satisfy the QA requirements.

4.1.5.3 Culture, Language and other Barriers

Norwegians' mentality as well as Europeans' differs from the Russian one severely, particularly, it was different in the soviet and post soviet times, when there were many opportunities, especially for "enterprising" persons, to make a lot of money effortlessly, for example, via privatizing the property that belonged to the government. Citing Polyakov, it is purely European to work five days a week during all one's life until "The Lord rewards" him, but Russians thought differently. The conditions for running business in the post soviet Russia were unstable, while every normal businessman wanted stability and predictability of the future economical situation in the country. The one, who owned a production plant in 90s, for instance, could not be sure that some raider, supported by mafia, wouldn't come and take over his business. Probably, that has imprinted Russian business mentality so that made entrepreneurs more short-term oriented, trying to make money whenever they got the opportunity for it, by any ways and compromising the possible future benefits of long-term business relations, because tomorrow one could not get the chance to do business at all. The economical and social life was changing too fast, and no one knew exactly what future would bring.

Aaselid has proved the above mentioned by saying:

"You cannot think long-term, because in Russia many partners have short-terms objectives, without taking care of the future consequences."

He called it also the lack of seriousness. That was a serious obstacle for running business in Russia, also because it raised the issue of trust. Formal contracts did not guarantee the reliability in relations, they didn't even guarantee that the order/raw materials would be shipped at all. Many Russian contractors showed themselves as not reliable counterparts, for example as it has been mentioned earlier, suppliers provided Rossnor with bad quality raw materials, failed to

deliver on time, violated the agreements, changed the key contract conditions after it has been signed, etc.

Although Norwegian side blamed Russians in short-term thinking, in willingness to get as much benefits as possible right at the moment. Kurganov argued that Norwegian side were not long-term oriented as well. “They didn’t want to own any production facilities in Russia” – he said. Renting instead of owning was enough for them, while he insisted on buying some facilities thinking about the future of business. He highlighted that the leasing contract was expiring in 2009, which made the future of Rossnor with its two subsidiaries and more than hundred employees unclear. But Norwegian Directors were not taking any decision regarding buying or renting new facilities after the expiration date.

Differences in mentality and way of thinking as well as doing business came out in conflicts between the Russian and Norwegian partners. For instance, Polyakov and Aaselid, though they claim that they were still friends, could intentionally not speak with each other during months, even when they were sitting in front of each other at the BM. Aaselid agreed that there were such conflicts, especially in the last years.

“In general, the reason for the conflicts was the lack of action from the Russian side. From Polyakov’s side not everything was done, and what has been done was done very slowly. There was often much speaking without proper actions followed. I was not interested in speaking. We can speak like friends – and it is ok, but, if we are doing business and we have an agreement, things must be done according to this agreement. Probably, that is the question of cultural and personal differences between us. These guys in Rossnor lived too relaxed life.” – summarized Aaselid.

Perhaps, it’s not so important, but personal differences were even in the biological clocks of the partners, Bjørn was a so called “lark”, while Andrey was a strongly marked “owl”. And for him it was unusual to come at the workplace before 10 am, while Bjørn starts his work from 6 o’clock in the morning, and I’ve experienced it on my own skin, as one of my interviews with him took place at 7 am.

One of the most important contributions that Norwegians did is, thinks Polyakov, is that they managed to import their business culture into the Russian office of Rossnor, but only on the office level. All the production processes were still executed in the “Russian manner”. The “Russian manner” assumed constant debate around the quality of products and misunderstanding of what the quality product is and why it is so necessary, because “it will work anyway”.

It’s worth mentioning back side of the Russian reality of 90s, which is “Russian mafia”. When you become attractive bad guys could “visit” you, which was a threat for the small and medium business in Russia in the 90s, but, fortunately, not anymore on the agenda. Thousands of

firms in Russia were posed threats, and they have no other choice as to paying a part of their profit to mafia's representatives. Rosssnor has overcome the "slashing 1990s" rather smoothly, due to the fact that one of the managers of the company had a background in the Russian Committee of State Security (KGB), which helped in settling these sort of problems and prevented all the efforts of illegal intrusion into the company.

Export of the goods was another continual and challenging task, which kept managers awake at night. The costs for exporting and importing goods, including "fees" or bribes, were approximately five times higher than price for the same procedure at the Norwegian Customs. Aaselid, gave an example, around NOK 500 it cost to cross the Norwegian border, so NOK 2500 it could cost to send a commercial vehicle through the Russian border. In addition it was time-consuming procedure. Long hours, days or even sometimes weeks could be spent waiting for the "green light" for the exporting goods through the customs. In contrast, customs in Norway is more a formality, than a procedure. "If you want to export goods from Russia, you need to adapt" – said Aaselid. By adaptation he meant taking for granted the bureaucracy and corruption associated with the Russian Customs.

Language was another critical issue for Rosssnor. "*Translator becomes an important person in joint ventures, especially in Russia, where few speak English language*" – argues Polyakov. "*In the real operations, the work through a translator is almost impossible*" – thinks Aaselid. When he learned enough Russian language to be able to communicate on this language, the company benefited from that, and it became easier for all. He could easily talk to foremen, engineers, workers, etc. Even Kurganov didn't speak English, though he was one of the several key figures in Rosssnor during 8 years. Andrey Polyakov, using his linguistic skills was often translating from/to English.

All in all both Kurganov and Polyakov said that the big advantage of this cooperation was the Norwegian business culture, their commitment and eager to what they are doing. That was positive for sure and the Russian side has benefited much from that. Both of the Russian general managers agreed on that Norwegians have always been fair and open business partners, when the two parties faced some problem or misunderstanding, they always found consensus, which was satisfying for both.

4.1.5.4 Accounting/Taxes

Among other troubles that Rapp's Russian arm experienced, there was a misunderstanding between Rosssnor Marine and the local tax authorities. Russian business has an "allergy on paying white salaries". Instead, and it's not a secret, the majority of Russian businessmen try to avoid paying social taxes to the government. This is done by reducing the tax basis, namely the

amount of the official employee's salaries to the minimum, which could be as low as 5 – 10% from the real personal income. The rest amount is a “black income”, which is given out the employee “in the envelope”. Such system makes it extremely inefficient the accounting process itself in the firm. *“Cash operations are not efficient, unpredictable and difficult”* – believes Bjørn Aaselid.

Norwegian party was aimed at establishment of transparent and integral accounting system in Rosssnor from the very beginning, to work openly and honestly without hiding incomes and other cooking the books techniques. And they managed to do it, though it was not unproblematic. In the end of 90s Rosssnor received a notification from a tax authority. General Manager was invited to the tax office, where he was asked to review the tax and salary policy in Rosssnor, because the official wages were way too higher, compared to the average level in the city at that time. Polyakov was told that the usual worker at Rosssnor got higher official salary, than a manager in the bank and that was not convenient for the tax authorities. Sounds not reasonable, but that was a clear signal for the company to adapt to the Russian tax system.

Rosssnor used Norwegian principles of presenting the accounting information, instead of Russian, because the Board of Directors and the management found them more transparent, while in the Russian accounting system “nothing is clear” – according to Kurganov. Though the financial reporting was prepared in accordance with the Russian accounting law, at the BM this data was presented in a greater detail, compared to the Russian requirements. An example of the profit and loss account and a balance sheet of Rosssnor Marine are presented in the appendices on the figures A.4.7 and A.4.8.

4.1.5.5 Production Efficiency

Many factors influenced the company's performance. Polyakov says that a serious obstacle for Rosssnor was the deteriorating situation in the Russian economic and social life. Russian production is becoming less and less competitive in comparison to what Russia had before as well as to other developing nations. One example is that the labor costs on the Russian production sites have increased in 3-5 times since the end of 90s, but the labor productivity has not improved that much. Polyakov gives example that average monthly salary for a worker in the late 90s was about \$300, while in the late 2000s it exceeded \$1000, while the production efficiency has probably decreased during the last decade. Also taxes, maintenance (electricity, rent) and other costs have modernized. According to Polyakov, in China today, it's possible to buy a finished good, for example an element of deck equipment, at a price, which is, on average, close to the price of a raw material, required to produce this element, in Russia. Business, based on production, is labor intensive and assumes large amount of labor and maintenance costs,

that's why it makes it very costly to produce goods of a good quality and still be competitive in modern Russia. He continues by arguing that *"there is no market in Russia for deck equipment. We don't produce enough vessels to be able to consume production of deck machinery. It's much easier and cheaper for a fisherman to buy an old boat from abroad and use it."*

4.1.5.6 Cost Structure

Aaselid's opinion is that inefficiency and bureaucracy are major barriers for the big production plants in Russia on their way to competitiveness. Russian enterprises often have a tendency to have a big overhead. *"There is much more staff than is actually required for running the business and, as a result, you become not competitive"* – he thinks. In Norway, for example, one can hardly find a single secretary, while in Russia, even middle-level managers tend to have their own secretaries for typing, preparing documents, answering the phone calls and making coffee.

The real overhead costs in Rossnor could reach up to 30-40% – thinks Aaselid, while in Rapp Marine in Norway management is aiming at maximum 25% of overhead. For instance, if material and direct labor costs constitute 70% of the sales price, 25% is overhead, so there are 5% left for the profit. Situation in the Russian arm was completely different, and if we compare non productive and productive employees the cost ratio for the former is much lower in Norway. Production division ETC-Stalcon, however, didn't have so much overhead, as Rossnor Marine did. The level of the overhead in production department of Rossnor was around 20-25%, as Aaselid said. When in 2002 the customer's demand has decreased significantly, reducing the production, the need for cost reduction became clear-cut, but in practice it proved to be a difficult task for the Russian management.

4.1.5.7 Human Resources

It's normal in the Norwegian and in the most European companies for a subordinate to tell his boss, that he is not right and suggest his idea or solution for the problem with argumentation and, if it can improve some process or lead to the better performance of the firm, the employee can get a reward. Anyway, if the employee is not correct he would hardly ever be punished, but in Russia not many subordinates could dare to say something, which contravenes their senior's opinion. However, there was a "Norwegian" advantage for the employees of Rossnor, because they were integrated in the worldwide network of the Rapp Marine Group.

Polyakov gave examples of Russian employees of Rossnor, who left the company, but then returned back after several months of work in some Russian companies. His explanation of that phenomenon was that they had already gotten used to the conditions and the way they had been treated in this Russian-Norwegian joint venture. The reason why they decided to leave Rossnor

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was because of their price on the labor market has increased because of the competences and knowledge, they have acquired during the years of work in this international company. Therefore, there were some Russian employers, which could offer bigger salaries for their skills, but as it turned out those companies were not capable to create such “atmosphere” and conditions at the workplace that Rossnor did. Polyakov call it “socialistic”, meaning that everyone has the same rights in the office. When it was common for many business entities, e.g., factories, to delay salaries payment for several months, for Rossnor it was unbelievable. Every employee felt safe in the rather “unstable times” in Russia.

Later on the situation has changed and “too socialistic environment” took place in Rossnor, which had negative consequences, according to Polyakov. He thinks that this was due to the Russian culture, mentality and way of being. He supposes that during the last years this “employees’ culture” even got worse. He gave examples about his subordinate who was responsible for the communication with customs and preparation of all the necessary papers for exporting goods from Russia to Norway. This guy used around a week to do all this things required for sending one container abroad, spending all the week outside office – pretending that he was hard working. When things went worse, Polyakov has fired this employee and began doing that entire job by himself. At first time it took him around two days to send a container from Saint-Petersburg to Bodø, instead of using one week. In the second time it took him approximately one day, and from the third time, when he already knew how it worked, he was performing the task, without leaving the office, but doing all necessary actions by the phone, using around three hours.

The last several years (2006 – 2010) were the worst and, probably, the hardest years for Rossnor, and the situation around the human resources was not an exception. As Polyakov said many employees felt confident that they would receive their salaries in the end of the month and just were present at the workplace, without complete executing their job responsibilities, which led to the losses that company bore. In addition it became difficult to control this, especially when Polyakov was the only manager in the Russian office of the company. At this time the measure that he used were: “stamping a foot”, “pressing and making employees to perform their duties”. That was probably connected to the atmosphere that took place at Rossnor. “It was a “dying company” during the last 4-5 years” – said Andrey Polyakov. Aaselid commented the above mentioned by saying that the reason for these problems were coming from the top level and as a result affected the employees. Lack of action was among other reasons, which led company to continuous losses during the last years, due to high overhead costs. The amount of employees was higher, than actually was required for the current levels of production. As it was mentioned above, Aaselid insisted on the reduction of the staff, when the production level

decreased significantly, however, no drastic measures were taken by Rossnor Marine. The logical question arises why Rapp didn't shut its Russian arm before 2010. One of the reasons for that was the requirement to fulfill the responsibilities, which RAPP Marine had for their customers all over the world.

4.1.5.8 Cash Registration

Cash operations in Russia are an integral part of any business. According to the reports provided me by Polyakov, almost every contract that Rossnor signed with Russian subcontractors assumed paying a certain amount in cash and the rest via electronic transfer. Therefore, the importance of proper cash registration was high for the management. Polyakov used an electronic database, a so-called table of transaction (see figure 4.9), where he put in all the transactions that the company had. That was a tool for executing personal operative control over the company's activities. The table of transactions was used in order to have information about all current changes in the company. The table tracked all the flows of cash and movements of goods and services.

Such tool emphasized the focus of the Russian management on the cash, but not on the positive result itself in the long run. I suppose that the short-term focus, which Aaselid mentioned, had its implications in this type of control as well. Therefore, cash registration was important for the company.

Now, let's consider the structure of these tables:

Date	Counterpart	Description	Operation	Contract	Invoice	Order	Amount, USD	Amount, RUR	F/R
17.01.2006	Metallist	Heating		1/82-28	N/A	N/A		-70 800,00	F
07.02.2006	Metallist	Hot water-supply		1/82-46	N/A	N/A		-14 396,06	F
26.02.2006	Bank	Commission		N/A	N/A	N/A		-700,00	F
17.04.2006	Metallist	Commission of deposit		N/A	N/A	N/A		4 500,00	F

Figure 4.9 – The Table of Transactions (source: Polyakov)

The information included the planned payments and the shipping payments, if company was going to buy or sell something, the row was marked with payment (F in the column «F / R») and if the services were provided, the row was marked with R.

4.1.5.9 Production Value Chain

In the end of this section it seems reasonable to have a look at the product value chain of Rossnor, in order to see the interactions between the subsidiaries and to know what was actually added at each step. After the goods have been produced in ETC-Stalcon, they were sold to Rossnor Marine, where they were quality controlled, marketed and prepared for shipping to the customer. Rossnor Marine was also responsible for exporting the finished goods to the

Norwegian parent ETC, which then sold them to Rapp Hydema (Rapp Marine). In case of quality problems winches and/or gearboxes were completed at the Rapp’s facilities in Bodø. Afterwards Rapp sold the final product to its customers in Norway or abroad. In addition all the guarantee responsibilities were borne by Rapp.

In this respect it is interesting to look at the percentages presented in front of each step, which reflect the increase in the transfer price at which the product has been sold by one company of the Group to another (see figure 4.10). The percentages in brackets are provided by Kurganov, the ones without – by Aaselid. As we can see they differ severely. Actually, it’s difficult to believe that Kurganov was right in his estimation. Firstly, he didn’t have access to the whole picture and hardly ever could know the price that Rapp, for example, charged to its customers. Secondly, the figures are rather unrealistic, and their origin is not clear. Furthermore, from the common sense point of view it’s hard to imagine the tenfold increase in price within one value chain, assuming that there were no serious “additions in value” to the finished product, except the first production phase (ETC-Stalcon – Rossnor Marine).

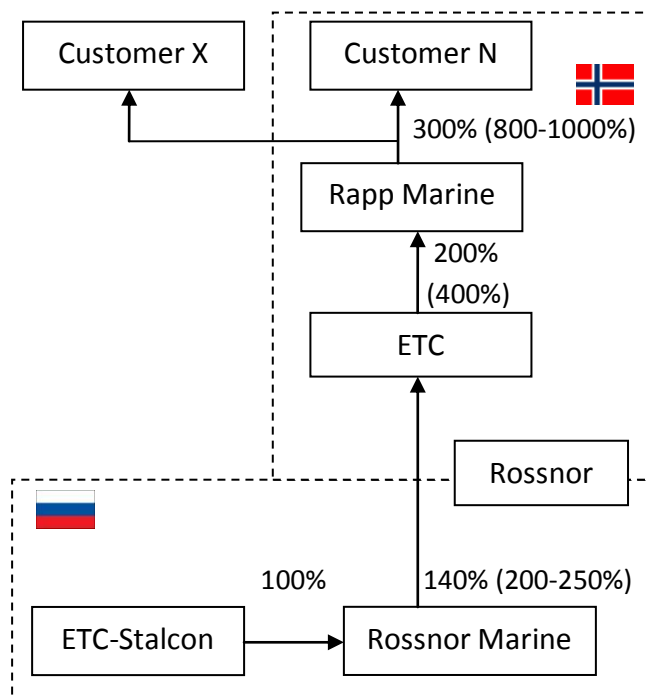


Figure 4.10 – Production value chain at Rossnor in 1997 – 2006 (source: Aaselid, Kurganov)

Nevertheless, Kurganov believed in these figures, and thought that Rossnor Marine didn’t pay him the real market price, and that it was one of the reasons for the loss he faced when the market went down. Such misunderstanding created the image of Norwegian counterparts as greedy partners, willing to reduce his “piece of the pie”.

According to Kurganov 2003 – 2006 were unprofitable years for ETC-Stalcon to produce goods for Rossnor, and that's why the company was pushed to look for other orders on the internal Russian market in order to break even.

We can see from the picture that Kurganov assumed that the price that Rossnor paid to ETC-Stalcon for one unit of a good was 8-10 times smaller than the price that RAPP Marine received from its customers (figure 4.10). Aaselid said that those figures had nothing to do with reality. And that the increase in price on each step was around 40%. Thus, the final customer's price was at maximum 3 times bigger than the ETC-Stalcon's price. Aaselid's opinion is that managers of ETC-Stalcon didn't imagine the seriousness of ensuring high quality and importance of the guaranty fund as an instrument for fulfilling customers' expectations, like after-sales services, maintenance, repair, etc. and the level of costs associated with these activities. And the last 40% increase in price (step: Rapp Marine –Customer N, X) was the cost for the customer's loyalty, which enabled Rapp guaranteeing its obligations to customers. This allows the company to stay on the market, being one of the leaders with the brand name well-known, not only in Norway, but all over the world. In my opinion that was difficult to understand Group's Russian partners, due to cultural and personal differences, which finally led to the negative consequences.

4.1.5.10 Resume

All in all, Rapp Marine aimed at building a mutual organization, where the two parties were equal and had the same rights on all the levels: strategic, management and operational. However, it proved that Norwegians made bigger efforts, and, in my opinion, they've made bigger input into the future of the company. In addition, their investments were much bigger, compared to the investments from the Russian side, and not only in terms of financial resources. They bore more risks and responsibilities, than Russians did, except the invested money Rapp has put at stake its brand name and customer's loyalty.

Looking at the joint venture on the whole, we see that the higher we are in the management hierarchy, the more mutual presence of the two parties exist, but on the lower levels – management and operational, the Russian cultural environment was dominating, leaving no space for the Norwegian business culture with its procedures, methods and practices, which functioned in the Western society.

Nevertheless, this joint venture has failed, and management control couldn't stop it. Two perspectives of two parties were very different in nature, and they couldn't reach convergence in many issues. Norwegians had their "organizational myths" on how to do business, while Russians had their, based on the culture, mentality and history. When these two perspectives met each other, they didn't reach consensus and, though the company has counted many years of

progressive operations, joint venture has failed. I believe the major reason for that was that those “myths” haven’t been completely resolved.

4.2 Reinertsen NWR – “Playing by its Own Rules in Russia”

4.2.1 Quick Look at Reinertsen AS

Reinertsen AS is a family owned Trondheim based company, offering Engineering, Procurement, Construction and Installation (EPCI) services within the fields of oil & gas and industry, civil construction and transportation as well as infrastructure. Reinertsen supply services throughout the value chain, from conceptual studies, project development and engineering, through to construction, installation and maintenance during operation. For more than 60 years the company has been involved in solving and executing large scale development projects, both on- and offshore (Reinertsen.com, 2011).

Reinertsen Engineering was founded in 1946 and nowadays is one of the largest engineering organizations in Norway, recognized by a high educational level, and extensive experience. The main work areas are oil & gas industry, civil engineering as well as transportation and infrastructure. Reinertsen Engineering has many large and demanding clients requiring streamlined execution of large projects. This has driven a fast development of systems within IT, HSE and QA (figure 4.11), engineering, procurement and material management. Furthermore, the company emphasizes the importance of a competent workforce, by extensive training programs for the personnel.

The interface with Reinertsen’s Fabrication and Contractor divisions provides the engineering staff with the opportunity to work within all parts of the value chain from early conceptual studies through detail engineering, procurement, fabrication, installation and operation (maintenance). To collect and share the knowledge Reinertsen works closely with the technology community in Trondheim. Many projects are elaborated in cooperation with research institutes such as NTNU¹⁸ and SINTEF¹⁹.

The contractor division of Reinertsen is one of the major civil contractors in Norway with an annual turnover of 1,2 billion NOK and 360 employees. The Contractor Division supply project development services and turn-key contracts, in cooperation with the other divisions. Construction projects are performed as main contractor, sub-contractor or on the EPCI basis. The projects within such areas as building, water supply & usage, industry and transportation & infrastructure are being done within this dimension. The company has two fabrication yards: one

¹⁸ Norwegian University of Science and Technology (ntnu.edu)

¹⁹ The SINTEF Group is the largest independent research organization in Scandinavia. Every year, SINTEF supports the development of 2000 or so Norwegian and overseas companies via our research and development activity (sintef.no).

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in Orkanger, Mid-Norway and another in Murmansk, North-West Russia. Both yards, have extensive track record with oil and gas projects. In addition Reinertsen has its own multi-wheelers for site moves and load-out and a barge, making them able to deliver the projects at specified locations.

The installation division has around 200 employees within administration, work rotation, installation management and skilled workers. Additionally they have long term cooperation agreements with partners, performing surface treatment, insulation, scaffolding, access techniques, bolt tightening and pressure testing. The division has approximately 1000 skilled workers available including the resources from their cooperation partners. Reinertsen is currently working on the following sites: Heimdal, Oseberg, Grane, Kristin, Norne, Heidrun, Åsgard, Tjeldbergodden, Sture og Nyhamna.

HSE POLICY

- REINERTSEN's goal is zero accidents, loss or damage to humans, equipment or the environment.
- REINERTSEN shall be among the best contractors within HSE.
- REINERTSEN's business shall be characterized by "Safe to build, safe to use."
- Continuous HSE improvement will contribute to increased productivity and profit.
- REINERTSEN's methods and procedures within HSE shall be used by all employees.
- REINERTSEN shall comply with environmental laws and regulations and improvement of environmental efficiency.
- REINERTSEN's facilities, documentation and IT-systems shall be sufficiently secured.
- REINERTSEN has no tolerance for the influence of alcohol or drugs during work, or use that affects the work.
- REINERTSEN is committed to maintain a safe working environment for the employees.

QUALITY POLICY

- REINERTSEN shall produce correct quality by working systematically according to REINERTSEN's management system.
- REINERTSEN has a process based management system which shall be used by all employees.
- REINERTSEN shall continuously develop its procedures and project execution methods.
- REINERTSEN shall work to achieve "zero errors" in the execution of projects.
- REINERTSEN's improvement system FEILFRITT shall actively be used to ensure continuous improvement.



Figure 4.11 – Reinertsen's Policy within HSE and QA (source: Reinertsen.com)

Nowadays Reinertsen AS has offices in Norway, Sweden and Russia with around 2000 employees and reckoned as one of the top 3 companies within offshore pipe design in the world (Offshore Energy, 2008). In 2006 the annual turnover was 2,3 billion NOK. The organizational structure of the company is presented on the figure A.4.9 in the appendices.

4.2.2 The Establishment of Reinertsen NWR in Murmansk

The decision to establish a production site in Russia was made "under special circumstances" – explained Torkild Reinertsen, CEO of Reinertsen AS, in his interview (Flatøy & Johansen,

2007:94). During the preceding 15 years CEO has been travelling to Russia, monitoring the development of the country, with the thought of entering the Russian market one day, but there were no serious movements made until the beginning of 2005. At that time the company has won a huge project for Fluor, one of the Statoil's suppliers. At first, this project was supposed to be produced in Poland in order to reduce costs, which was connected to the increasing competition in the industry and the fact that most of the major market players had already moved their production to the low cost countries, but Reinertsen had its only production facilities in Orkanger in Norway. But then the management decided to move away from Poland in order to create their own sphere of interest and to enter a more virginal market, such as the Russian. *"That was the moment when the idea first came to me: now we're going to establish ourselves in Russia"* – said T. Reinertsen (Flatøy & Johansen, 2007: 94).

The reason why Russian site in Murmansk was preferred to the production in Poland is expressed in the words of Geir Tore Suul, the Director for Business Development at Reinertsen AS.

"Our plan was to open a facility that we could fill with Norwegian projects, to produce low cost constructions in Russia under our own supervision instead of sending them to Poland. This way we could remain in control of production and ensure Norwegian quality standards all the way" – told Suul (Offshore and energy, 2006:76-77).

The time between the decision of establishment in Russia was made and the start of production was record low. On the January 10th 2005 the management decided to move and open up facilities in Murmansk, and in the middle of the April the same year they started production. That was due to the tough time requirements for the Fluor/Statoil project, which have accelerated the process of establishment.

Svein Frode Grande²⁰ was hired as an operative manager of the production plant, but it soon turned out that his Russian language skills were required for many other aspects of the operation as well. It's remarkable that Svein was a farmer in his past, but life has brought him to the Republic of Belarus in the early 2000s, where he's spent several years studying Russian language among other. It proved to be a good investment in his future career, because after his homecoming he was offered a position in Reinertsen NWR and was deeply involved in the establishment of the company in Murmansk. Today he speaks fluent Russian, which according to him is a prerequisite for operating in Russia. He said that if one doesn't understand the language his workers speak in the factory, he doesn't understand the production itself. If there is some

²⁰ Svein Frode Grande is a private entrepreneur, ex-farmer, currently a chief of Procurement, MA and Technical at Reinertsen NWR, has been living in Murmansk since 2005.

kind of a conflict among the employees in the shop or office, in many cases it can be noticed only if you know the language, and, specifically, its delicacies.

“Our first challenge was to find the best possible location. We visited Murmansk several times and also we visited Arkhangelsk” – said Suul (Offshore Energy, 2006:78).

Murmansk was chosen over Archangelsk as the place of establishment. It has an ice-free harbor, lies rather close to the Norwegian-Russian border and also it's a key place when it comes to the development of the Shtokman field. There were few available sites outside Murmansk and Reinertsen bought one of them, an existing “sleeping company” within a Murmansk shipyard complex at the Abram-Mys. It's remarkable that these facilities were shared with Gazprom, while the surrounding sites were all military (Offshore Energy, 2008). The fabrication site is accessible by sea, road or railway. The total size of fabrication shops is 5'200 m², the storage area (covered & insulated) is more than 500 m² and the office area is around 250 m².

Since Statoil was interested in gaining a foothold in the North-Western Russian market, having them as a customer was an advantage for Reinertsen's establishment in Murmansk. Statoil went so far as to provide financial support to Reinertsen NWR for the training of Russian operators. In order for them to comply with strict production standards they were sent to Reinertsen's Orkanger production facility for training. Many of them gained certificates. Torkild Reinertsen also said that they also got NOK 400 000 from Innovation Norway as well as support from Hydro.

“The second big challenge was to hire the right people. ... Two factors were decisive in reaching the high level of quality needed to do projects according to the standards demanded by the NCS: highly skilled craftsmen and lots of training” – claimed Suul (Offshore Energy, 2006:78).

The level of workers in Murmansk was high, so management didn't experience difficulties in finding employees they could work on their projects. The problematic aspect was that the equipment and working procedures at Reinertsen NWR were very different from what Russian operators had been used to. The solution was found immediately and all the workers were invited at Reinertsen's facilities in Orkanger for training.

According to Suul, it was not difficult to teach them all the new procedures as they had a high level of competence. However much time has been spent going over practices related to safety. *“When we talk about Norwegian HSE regulations we had to take time to explain that we actually expect the regulation to be followed”* – affirmed the director for business development.

The positive fact concerning the establishment of fabrication yard is that Reinertsen AS was warmly welcomed by the local authorities. They were helpful in many ways, and of course were looking forward to getting new places of employment for the locals.

4.2.3 Structure of Control at Reinertsen NWR: Strategic Level

From the very beginning, when the Russian department Reinertsen NWR was established, the chiefs tried to build a business model, independent of the Russian partners. They took over an existing company in Murmansk and after some time Reinertsen have bought out all the facilities from the previous owner. Though their initial plans were ruined, at least for some time, while the development of the Shtokman gas field is being postponed, they've found their niche. They're importing the majority of raw materials for executing their projects at the Murmansk site for the customers, operating on the Norwegian continental shelf.

Reinertsen's division in Murmansk is 100% owned by Reinertsen AS. The structure of the Russian fabrication division is presented on the picture A.4.10 in the appendices. Officially it is a Russian Limited Liability Company with the Norwegian general manager on site and the Russian workers. Today the company has around 450 employees and this figure is constantly changing. The master foreman is Russian with over 20 years of experience in structural steel fabrication. Reinertsen NWR's workforce consists of 290 Russian operators who have been exposed to intensive training at Reinertsen's fabrication yard in Orkanger. The training in Norway included the following topics:

- HSE and Norwegian working environment regulations;
- Function and safe use of equipment and hand tools;
- Understanding of construction drawings;
- Work package system, reporting requirements;
- Welding theory, welding equipment.

Thomas Reinertsen, the director for fabrication at Reinertsen AS, has stated that the strategic ambition of Reinertsen AS is to increase capacity in Murmansk, and hopefully to build new premises, if future contracts demand it (Offshore Energy, 2008).

As to the work for the Russian market, the situation is not such, as Reinertsen wanted it to be. During the first three years of cooperation Reinertsen NWR has signed only one Russian contract. They do not sell anything for the Russian customers. Svein Grande thinks that Reinertsen NWR is probably too expensive for the Russian market. The reason for such high prices on the company's products is a high level of quality, which fulfills the tough requirements of the Norwegian continental shelf. At the same time there are few or even none Russian

competitors for Reinertsen NWR, because of the highly specialized products besides the quality. Geir Tore Suul says (Offshore and energy 1, 2006: 78):

“In the long run it is important to develop a good relationship with Russian companies and subcontractors. That is a strategy which will ensure a prosperous future with regard to projects in the Russian offshore sector as well as onshore.”

As for the suppliers Reinertsen NWR is dependent upon competitive and competent ones. The company meets strict standards regarding quality and HSE routines. This also applies to all sub-suppliers. Supplies such as steel, paint and insulation must come from approved suppliers. The most of the Russian suppliers are not capable of meeting the strict petroleum business standards and still be competitive on price. Henceforth the only commodities that can be bought locally today are machined and turned steel parts.

Another obstacle to the use of Russian subcontractors is the business mentality. Grande says that a Norwegian company may be very happy with a 5 % profit, whereas a Russian business would deem that margin as too low. Grande thinks this mentality is especially characteristic when Russians deal with foreigners. He gives an example from the cement work at their production plant. In the end Reinertsen NWR decided to do it themselves at a cost of NOK 2 million. The cheapest Russian bid was for twice that price. As a result of these factors, Reinertsen imports most of their supplies. Imported goods must, naturally, undergo strict custom controls, which is another big challenge.

The issues of standardization and certification also influence the possibility of Reinertsen to work on the internal Russian market. Russian safety norms and standards do not differ severely from the Norwegian, thinks Tore Suul Grande²¹, but the difference is in the approaches that are used. The process itself is not of high importance in Russia, but the proper documentation and presence of different certificates is of higher priority. The Russian legislation, in many regulations is tougher, compared to the European. For example, in order to be able to work on the Russian market specialists at Reinertsen must be further trained in order to fulfill the standard requirements and become certified specialists and get the permissions to work, for instance, as a manager within standardization, HSE and QA.

Until 2011, Reinertsen NWR didn't produce any serious works for the Russian market players. According to Tore Grande only few small and insignificant orders were done for the

²¹ Tore Suul Grande is a farmer in his past, has been studying Russian language in Belarus for several years, first time was hired by Reinertsen NWR in November 2006 as a concrete works specialist, but already in April 2007 he received a new offer and became a production manager at the Murmansk site. He's been working on this position until the 1st of April 2010 and afterwards came back to Norway. In the end of the February 2011 he got another offer from Reinertsen, this time they wanted him to work on an improvement of the HSE system at the production site. He had a contract from the 1st of March until May 2011.

internal market, though by the time of writing this thesis the company has considered one Russian project. In this respect the company has been audited by its possible partner on the issues of quality standards and certificates on hand. It showed that right at the moment the company was not able to satisfy all the necessary requirements. In the opinion of Tore Grande, it would be difficult to work in the Russian market, especially at the present level of costs, so the hope is that the development of the Shtokman field will begin in the nearest future.

4.2.4 Challenges for MC in the Russian Division of Reinertsen AS

Reinertsen's scope of activities differs a lot from what Rossnor has been doing in Saint-Petersburg. The Rapp's Russian arm was specializing in unit, batch or mass production of winches, gearboxes, or whatever while Reinertsen's output is a complete turn-key project. This imprints the management control practices the company uses.

For each and every project that is going to be produced at Reinertsen's facilities a project group is being created. The organizational chart is created for each project. Usually this project group consists of the Norwegian managers, even if the majority of the project is being produced in Murmansk. They spend some time at the Russian site controlling the production process, as well as use video meetings as a tool for conducting a dialogue with the Russian department. For each and every project the budget is being made, which is an important instrument in managing the costs on all steps of the project development.

There was a space distance between the "plans" and "actions" in Reinertsen NWR, as the project structure, strategic and management decisions planning and the project team were developed in the headquarters in Trondheim as well as the major decisions were taken there, while the production was done in Murmansk, strictly following those instructions and keeping the project plan. All in all, the Russian facility doesn't have freedom for action, but instead has clear boundaries, established by the Norwegian top-management.

On the 27th October 2009 Reinertsen AS has signed a contract with TCM DA on Technology Centre Mongstad²² valued at NOK 400 million. The contract included the fabrication and installation of tie-in systems to the flue gas sources, pre-processing systems for the flue-gas and installation of electrical and control systems as well as several other smaller systems in connection with the construction of a test center for the CO₂ capture. Project management and planning were to perform at Reinertsen's main office in Trondheim. The contract work should have been completed in April 2011 (Reinertsen.no, 2011).

²² Technology Centre Mongstad (TCM) is the world's largest facility for testing and improving CO₂ capture technologies, a vital part of the Carbon Capture and Storage value chain. TCM DA is a joint venture between Gassnova (on behalf of the Norwegian state), Statoil, Shell and Sasol (tcmda.com).

Empirical Findings

That project was supposed to be the first project in the history of Reinertsen NWR to be completed in Murmansk, without further transportation to Orkanger and finalizing there. But it proved that due to the time limitations some operations were done at the Norwegian site, though Russian facility obtained all the necessary equipment, shops and specialists to be able to make the project on their own. Specifically, electrical department, mechanical department, non-destructive control laboratory, welding control, pipe testing (pressure testing up to the 1000 atm.), insulation and painting shops.

TCM project has allowed further expansion and development of Reinertsen's services in Russia, and is therefore an important step in the preparation to take a major role in the Shtokman development project. "Mongstad" has promoted the extension of the company's Murmansk site. In order to execute the TCM project Reinertsen hired around 90 workers at the Russian site and the figure increased from approximately 360 before 2009 to 450 employees at the time of the project. Thomas Reinertsen stated that the contract was strategically important to the whole company (Reinertsen.no, 2011).

As was mentioned above there is a strict control from the Norwegian management over the Russian office. To begin with all the important decisions are made in Norway and then they're announced to the Russian office. Though Norwegian management tried to hold a dialogue with the Russian, but often the language barrier made it difficult. Svein Grande told that they practiced weekly online video meetings with the office in Trondheim, where a couple of his Russian assistants, responsible for procurement and export, were attending them. The problem was that they were pretty bad in English and, though they were nodding their heads as if they understood their Norwegian colleagues during the meetings, it often proved that it wasn't like this. Svein said that in his opinion that was useless or even had a negative effect, creating confusion. Now he is alone, who is in contact with the Norwegian office, and after the conferences he communicates all the necessary information to his subordinates.

In addition to these video meetings with the Norwegian top-management, there also were weekly meetings organized by a general manager, where all the heads of the departments are reporting the progress, raise problematic questions and have an inter-departmental dialogue. Five days a week there were morning discussions devoted completely to the production process, where except the production managers and the foremen representatives from the other departments are invited, if they are required for solving the current problems. Two times a week meetings related to export and logistics were hold.

According to Svein Frode there exists an informal conflict at the site between the Norwegian managers and Russian operators. Often some of them, especially those with many years of experience behind the back, do not want to follow the instructions, which they didn't met before

and which they either don't understand or just don't find useful. It is often difficult to explain to the welder or mechanics that this certain operation could be done in another way, the way they do it at the Norwegian site, according to the Norwegian rules, but workers often don't take it into consideration and continue doing the same operations in the old-fashioned way. Svein says that this enhances the problem of production efficiency, which can be measured either in money or time consumed for the production of the product. On average the productivity is lower at the Murmansk site, compared to Orkanger. The challenge is that when workers hear the word "productivity", they think just the speed of production, which is not fully correct. Management tried to teach workers to work individually, to join pipes alone, for instance, which was new for them, and which they didn't want to conform with. Therefore, the same production unit can be done faster and often involving fewer workers at the Norwegian facility. According to both Grande, relationships between the senior and subordinates in Russia and Norway are understood differently, hierarchy in Russia means much more, than it does in Norway, which corresponds to the opinion of the Aaselid and Polyakov as well. In order to solve these issues training is not enough, personal approach to each operator is needed. To cope with these challenges, more specialists with relevant Russian production background have been hired, which now are holding positions in the low-level management.

Though it often takes less time to produce a pipeline in Norway, it's cheaper to do it in Murmansk. On average company can save from 30% till 40%, operating in Russia (Flatøy & Johansen, 2007).

But nothing comes easily, and though the Russian subsidiary saved money on production, it spent a lot of resources on transportation, specifically on exporting the finished installations from Russia²³. According to Svein Grande there is little competence on export to Russia in Norway, and not many businesses are approved exporters to Russia. In order to overcome this lack of competence on behalf of Norwegian sub-suppliers, and to overcome Russian customs bureaucracy, all procurements are centralized and shipped from Reinertsen's main office in Trondheim. This means that, if there are different parts to be sent to the Russian site from different places outside Russia, they are first sent to Orkanger, collected and after that shipped to Murmansk.

Another related to export issue is rather high costs on transportation of the installation from the Abram-Mys (from the factory yard) to the Murmansk harbor, which is around 5-10 minutes of sailing (figure A.4.11), but is a requirement from the Customs office, because officially it is not the part of the international harbor. As Svein said in the interview, it costs way too much and

²³ According to Svein Frode Grande and Viktor Brevik (General Manager at Reinertsen NWR) the problems with exporting were almost the same as Rossnor experienced (see subsection 4.1.4).

management holds an ongoing dialogue with the local authorities on the possibility of the simplification of the transportation rules for the company, as one measure they suggested the inclusion of the ness area into the harbor zone, but didn't receive any positive feedback yet.

Reinertsen AS is a family business, which also affects the planning and control procedures within the company. According to Grande it has both pros and cons. The good thing is that in such company not much time is required to solve the problematic issues. The negative moment is that the owner and the top-manager is the same person, therefore there are tight budgets and much economy on everything. For example, the company doesn't have incentive system, such as bonuses. Another disadvantage is that often those managing owners limit the scope of activities of lower-level managers, deprive them any freedom for action.

Bonuses, according to the owners' opinion, could have a bad influence on the production quality. Grande argues that workers see the overtime work as a bonus. They got 150% salary for working overtime, but the salary level in the company is the same or a little bit higher, than the average level within the same industry in the region.

Much has been discussed regarding the language barrier, bureaucracy, accounting, etc both in Rossnor and Reinertsen NWR. In the end of this subsection I'd like to quote Geir Tore Suul (Offshore Energy, 2008:78):

"I agree with everyone who points to language and bureaucracy as time consuming obstacles when doing business in Russia. Also accounting is something quite different from what we used to have in Norway. But none of these challenges are insuperable; you simply have to learn how to deal with them."

4.2.5 Challenges for Operational Control

Tore Grande was a production manager at Reinertsen NWR for almost three years. He was hired by the company for several reasons. First of all, he was able to communicate with Russian workers and Norwegian management on their native languages, which was a crucial when it came to solving different problems both in the office and inside the factory. He said that they could hire a translator, which could have been even cheaper, but it wouldn't give such effect as it did. His main task was to solve the daily practical problems, which arose when the production goes to the fullest. He was able to read the drafts, which was crucial in his work, he controlled that the work was being performed according to the developed design and technology, followed the safety norms and regulations as well as quality requirements. According to Tore the usual translator was not able to suggest ideas, provide technical solutions to the numerous issues, which aroused continuously. Furthermore, he was well acquainted with the Norwegian and Russian legislation within the production safety norms and regulations, which helped him in his

work. It's noteworthy that having been employed on the key position in the middle level management in the Russian department, he didn't hold a higher degree of education neither within management and economy nor within any other scientific area. Nevertheless, the key role has played his agricultural background from running the farm, at first, together with his father (since 1996 till 2001), and then on his own (from 2001 till 2006), added by the excellent Russian language skills, worked out in Belarus (1995-1996). Such combination of expertise and personal skills ensured his strong position in the company and allowed him to cope with the managerial and technical assignments he faced. Hiring Tore Grande on the position of a production manager was a response to the problems within communications both in the shop and in the office, as well as his practical knowledge aided in solving different technical issues.

According to Tore customers of Reinertsen NWR, either it is Statoil, Norsk Hydro, FMC technologies or others have approximately the same standards, HSE and quality requirements. They often send their own inspectors to the site in order to control the production process, to ensure that the safety requirements in the shop are fulfilled and the quality of the works comply with the required specifications. According to Tore Grande during the recent works on the TCM project representatives from Statoil were inspecting the site on a regular basis. They felt free to walk inside the facility, observed how the production proceeded and put a special attention to whether the safety regulations have been applied at the workplace.

In January – February 2011, when the strategically important for both Reinertsen AS and its Russian subsidiary project was close to its finalization, external inspectors were not satisfied with the current level of safety and accident prevention in the shop after the regular inspection. Moreover, a serious case happened at the same time. Workers slung a huge plastic pipe, which should have been transported from one place of the site to another, but the fixing proved to be not reliable and the heavy pipe fell down on the floor. By chance nobody was injured, but the case wasn't left without consideration. Immediately the management of Statoil obliged Reinertsen to take measures and improve the HSE-system. One of the response actions was inviting ex-production manager Grande to the Murmansk site as a HSE-inspector in order to aid the present HSE-manger in her work and prevent further incidents. His responsibilities were to make daily inspections, to write reports and to point to the weaknesses and to give assignments to the responsible persons on what and how should be done in order to make the environment within the production shop more safety.

Among other measures there were organization of training courses for the workers and invitation of a Norwegian specialist in hoisting equipment and operations. His assignments were to inspect the shop, to check whether the operations were performed in accordance with the rules

and make corrections if they were not. This inspector was a Norwegian man, and was always followed by Tore, who was a translator.

It was interesting to find out why a female HSE-manager couldn't control the situation within the safety norms at the site, though she has been inspecting the shop daily and had an experience in this kind of job, in addition to her Russian mother tongue. It turned out that a Norwegian man had an advantage over the Russian lady. Tore himself explained this as three things. The first was an informal status and respect that he had amongst the workers, and that was something, she didn't obtain. Russian workers at the age of 35-50 would hardly ever listen to a young lady, even if she holds a position of HSE-manager, who comes down to the shop and tries to explain them what they can do and how they should do it. But they knew Grande as he had been a production manager, placed above them during three years.

Another thing was his past production experience, that helped him to see the potential threats and problems better and at the earlier stages. It's important to be able to notice the problem both visually and by talking to workers on the same technical "language" and by the one, who would be listened to.

The third issue is that in Reinertsen AS each and every employee from the worker up to the fabrication manager is responsible for the compliance with the safety policy of the company. Every employee must know, respect and follow the rules and regulations within the safety norms. So, when Grande was a production manager he made a weekly bypasses of the facilities, inspecting whether workers follow the rules and norms of the HSE-regulations, made reports and communicated the results the general manager. Almost every production meeting had a HSE-topic on the agenda. Such kind of competence has been collected by Grande and helped him in his new role as a HSE-inspector.

The differences in approaches to the HSE-management between Russia and Norway exist. HSE-manager in Russia would inform the employees with the rules and norms, they would sign it and then they automatically bear the responsibility for that. If they violate the rules they could be punished somehow.

Norwegian approach is more practical, it assumes less documentation, and concrete actions are implemented, while Russian is more bureaucratic. In Norway the head would always be responsible for any violations of the safety rules and norms, which is not always the same in Russia. Authorities, in their turn, require fewer formalities from the business, and at the same time more concrete actions, like observations, remarks and, eventually, corrections, are undertaken.

4.3 Summary

Although, these two cases have a plenty of similarities in context, they are different, and this makes it interesting to analyze the choices, made by these companies from the perspective of management control. In the table below I tried to sum-up the main empirical findings, related to Rossnor and Reinertsen NWR. Main findings, related to challenges for MC are highlighted.

Table 4.1 – Summary of the two cases.

Issue	Company	
	Rossnor	Reinertsen NWR
Date and Place of foundation	January 1992, Saint-Petersburg.	January 2005, Murmansk.
Initial Ambition	<ol style="list-style-type: none"> 1. Production of ship equipment for the Russian market. 2. Ensuring the long-term competitiveness of Rapp Marine by establishing subsidiary in a low cost country. 	<ol style="list-style-type: none"> 1. Organization of production for the oil & gas industry in the NWR. 2. Participation in development of the Shtockman field. 3. Production of low cost constructions in Russia under Norwegian supervision.
Strategy	Joint venture, close cooperation with Russian partners. Involvedness of both parties into the ownership.	Internationalization via FDI. Being as much independent from the Russian counterparts as possible.
Structure of Ownership	60% – Norway; 40% – Russia.	100% – Norway.
Human Capital Structure	<ul style="list-style-type: none"> • Norwegian and Russian Board; • Russian management; • Russian engineers; • Russian workers. 	<ul style="list-style-type: none"> • Norwegian owners; • Norwegian top- and middle-level management; • Russian low-level management; • Russian employees and workers.
Production (Facilities)	<ul style="list-style-type: none"> • Contracting/ Sub-contracting; • Leasing / Renting facilities; • Buying only a small welding shop. 	<ul style="list-style-type: none"> • Ownership/ Buying facilities.
Context/ Industry	Engineering, Production, Marketing and export of ship equipment.	EPCI services within oil & gas, transportation, civil construction and infrastructure.
Technology	Mass/batch production of orders	Projects
Challenges for Management Control	<p style="text-align: center;">Common:</p> <ul style="list-style-type: none"> • Cultural difference/Language/Communication; • Export of produced goods/Customs; • Short-term orientation of the Russian business partners; • Difficulties in finding reliable suppliers and counterparts in Russia; • Recent increase in labor and maintenance costs in Russia; • Production Efficiency; • Space distance between “plans” and “actions”. 	

Empirical Findings

	Companies' Specific Challenges:	
	<ul style="list-style-type: none"> • Trust in inter organizational relations; • “Fixed deal” is never fixed in Russia; • Majority in ownership doesn't give control; • “Lack of Action” from the Russian side; • Unclear transfer pricing. 	<ul style="list-style-type: none"> • Difficult to teach operators: personal approach is needed; • Tough legislation and bureaucracy within the Russian HSE and QA standards and regulations.
Business Culture	<ul style="list-style-type: none"> • Norwegian business culture only at the office level; • Russian production culture at the shop level. 	<ul style="list-style-type: none"> • Norwegian business culture at the office level; • Adopting the Norwegian production culture at the plant level.
Management and operational control	<ul style="list-style-type: none"> • The role and quality of budget was deteriorating; • Interactive control (production and logistics meetings); • Boundaries for the Russian managers, prescribed in the guidelines and procedures; • Lack of corporate code of conduct, visions, company's values; • “too socialistic environment in the office”; • Training of engineers in Russia and in Norway; • Cash control (table of transactions); • Decoupling Norway-Russia. 	<ul style="list-style-type: none"> • Annual budget plus budget for each and every project; • Interactive control: Production, logistics and other meetings; • Training of employees and workers in Norway; • Adopting of the Norwegian HSE and QA systems at the Russian site; • Project groups (administrated from Norway); • Coupling Norway-Russia.
Current Position	The company was shut down on 1 st January 2011.	The company is on its peak of operations in Russia.
Future Plans	Production facilities in China and Serbia have replaced the Russian arm of Rapp Marine Group.	<ol style="list-style-type: none"> 1. To grow, to execute all the stages of the project at the site in Murmansk in compliance with HSE and QA norms. 2. To enter the local Russian market. 3. To participate in the Stockman development.

5. Discussion

The central model for the discussion part (figure 5.1) is based on the summary from the empirical findings and my interpretation of two theoretical frames of references: the organizational learning framework (Fiol and Lyles, 1985) and the design and mobilization of MCS by Mouritsen (2005).

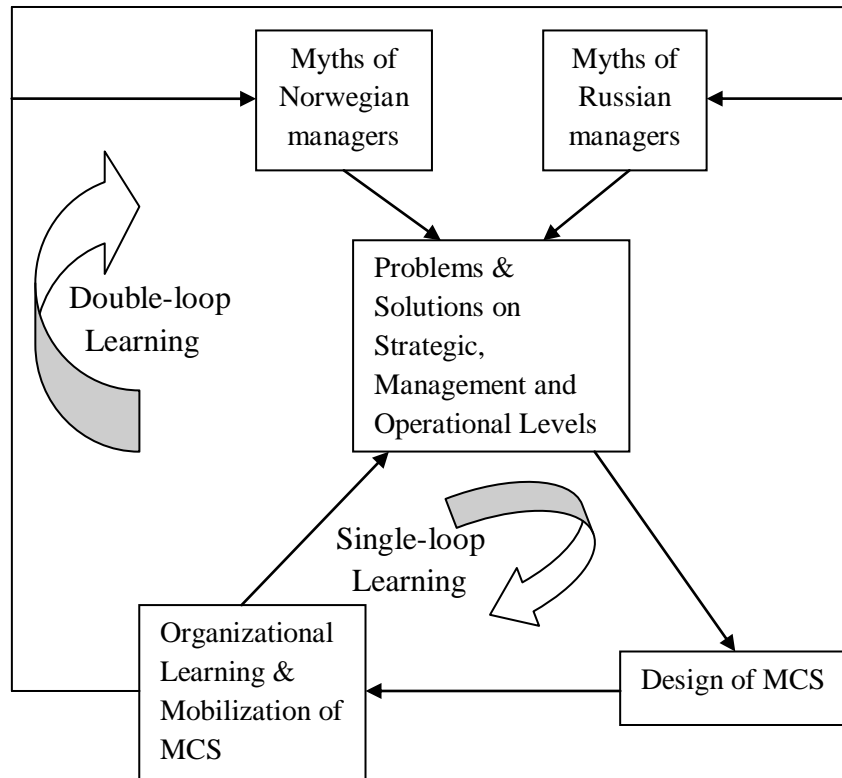


Figure 5.1 – A Process Relationship between Management Myths, Design of MCS and Organizational Learning

We can see from the empirical chapter that there were two types of management myths as well as problems and solutions on all organizational levels. It seems that some of the problems can be handled by the MCS and through different types of organizational learning.

Based on the model above I'd like to focus on three points, within three following sections. The goal of the first one is to discuss Norwegian and Russian myths of management, to define the implications that they had for MCS. In the next section, I'm discussing whether MCS was designed in a way, assisting to handling the challenges, associated with differences in beliefs of managers. This is done by looking at management control system through the "lens" of Simons' levers of control framework. The point of this section is also to consider how the design of management control systems were mobilized. The last section of this chapter is aimed at analyzing how organizations have been learning over time and what implications this process had for the MCS.

5.1 When Context Confronts Context or 10 Myths of Management

Myths are unconscious or semi-conscious beliefs, which have a strong influence on how people orient their behavior and actions (Chambers, 1980). My understanding of this notion is that myths of management are theories, traditions, beliefs, experiences and views of managers, which find reflections in their approaches to management. The problem arises when some of these myths are believed to be true when actuality they maybe false or partly true in different cultures or contexts. Let's consistently discuss the myths of Norwegian managers and consider the outcomes they've produced for MC, being challenged by the Russian myths.

5.1.1 Myths, Associated with Strategic Planning

5.1.1.1 Myth of the Ownership & Reward System

Norwegians believed that by involving Russian managers into the Ownership & Reward system of the joint venture, it would be in their best interests to strive for the better performance and to work hard for the benefit of the company. By definition ownership assumes getting financial rewards in the long-run. Dividends, thus, is a long-term incentive, which brings benefits only in a certain period of time in future, but it requires investments in the form of money, time and other resources right at the moment. This is the way businesses function according to the western perspective, as it is written in the textbooks.

However, Russian stockholders of Rosssnor didn't share this point of view, but they agreed to take part in the ownership. They assumed that sharing benefits in present is preferable to waiting for the dividends. Their goals were more short-term oriented, than their Norwegian counterparts expected. The reasons for that can be explained by the Russian mentality, which has roots in the modern history of this country (see subsection 4.1.5).

I assume that Russians were unsure in the ownership & rewards system. It was unknown for them and they needed time to get used to it. In fact a lot of time is usually required for the Russian people to adopt any new technique or method. Another reason for that could be that in the Soviet time cash was the most important performance measure, such "relic" is still in memories of Russian businessmen, and they could be driven by it (Adachi, 2010).

The result of the confrontation between these two views was that not a single dollar was paid in dividends, according to Aaselid. Norwegian myth, thus, was challenged by the Russian one and the outcome for the management control system was that it became more short-term and cash-oriented. This resulted in adaptation to the Russian rules with its cash- rather than profit-orientation. In such conditions a big challenge for the management was to build a transparent company, still being able to play by the rules of the Russian market.

There were not challenges, with regards to this myth, for managers in Reinertsen, due to 100% Norwegian ownership and its distancing from the Russian contractors.

5.1.1.2 Myth of the Ownership & Governance

It seemed clear-cut for Norwegians that if owner holds the controlling block of shares, he is in charge of the strategic decisions and he determines the company's investment program. However, many tensions on the strategic level took place between the shareholders of Rosssnor, showing that Russians had different opinion on ownership & governance. Debates between the production manager Kurganov, who was also a minority shareholder, and general manager Aaselid, who represented Norwegian party, started in the beginning of 2000s. Kurganov insisted on buying facilities, while Norwegians were against at that time. As a consequence he has made a decision on his own and grossly violated shareholder's rights.

This belief was challenged by this action and company has suffered a lot for not questioning it before. This has learnt Rosssnor that corporate governance in Russia is different from the Western and the control over the minority shareholders and other "agents" should be more rigid, such as it won't let similar cases happen in future. MCS couldn't stop that problem, because of physical and cultural distances between the two parties. Thus, governance and control on a distance without inspectors or any permanent representatives of the parent company "on place" (as it is done in Reinertsen NWR) proved to be insufficient and has led to the extreme outcomes.

The difference in myths of the shareholders rights wasn't resolved in Rosssnor and we can conclude that majority in ownership does not always give control in Russia. This myth raises the question whether the benefits of joint ventures are worth than its costs.

Reinertsen NWR again demonstrates that challenges, concerning the violation of the ownership rights, can be avoided by being independent from the Russian partners, leaving shareholding priority to only one party, one family in this case.

5.1.1.3 Myth of the Board Formalities

Introduction of the Board of Directors Meetings and associated formalities to Rosssnor was a merit of Norwegians. They have been using these formal Board procedures in Norway before and believed in its importance for the joint venture.

The assumption of the necessity of the Board formalities, despite it was a brand new and unfamiliar in the 90s, was accepted and shared by Russian management. The Board Meetings became a solid foundation for discussing the strategic issues and finding the solutions for overcoming challenges. Both parties appreciated the importance of such formalities and considered this as beneficial for the company.

From the MC point of view the Board Meetings and associated formalities were the critical links for information flow between the strategic and management levels. The integration of this myth into the Russian business framework has contributed to the promotion of the Norwegian business culture to the higher organizational levels. The realization of this myth was not unproblematic, primarily, due to different languages, which required preparation of all documents in two variants: English and Russian, and the necessity to use translators.

However, the majority of problems that had indirect relation to the strategic planning and control lied on the lower corporate levels and, therefore, couldn't be resolved only by intervening of the Board. In order to handle them other solutions, elaborated on management and operational control levels, were required.

5.1.2 Myths, Associated with Management Control

5.1.2.1 Myth of the Role and Use of Accounting

Accounting in Russia and accounting in Norway is two different things (as was discussed in the empirical chapter). Both Rossnor and Reinertsen NWR have experienced this. Its functions are not the same as they are in the Western companies. For example, according to Mellemvik et al. (1988) accounting information is generally used to reduce uncertainty in control and decision-making process. In the majority of small and medium Russian companies accounting is seen as an obligation to prepare financial reports for the authorities. Therefore, there is no emphasis on the quality, transparency and applicability of the accounting information for the internal users.

Norwegians thought that western accounting practices lead to more transparent and clear-cut way of presenting accounting information, compared to the Russian ones. That's why from the very beginning they've been aiming at promotion of their views on what is relevant accounting information and when and how it should be presented. Their efforts proved to be fruitful and, finally, Russian managers have questioned their myth. Both parties agreed that Norwegian way of presenting accounting information was beneficial for the company. Thus, the role of accounting in Rossnor was enhanced, which led to the positive consequences for the MCS, in a way that it has involved all the responsible persons, including general managers, accountants, treasurers, and others into preparing the financial accounting reports in an understandable, readable and comprehensive manner. But, as time went and Norwegians have distanced themselves from their subsidiary, the Russian myth started dominating again (further discussed in 5.2.2), showing that myths have memories and that physical distance can stimulate the process of returning to the old myths.

Reinertsen hasn't emphasized the role of accounting in its Russian subsidiary. They strictly follow the Russian accounting rules and regulations. However, if the level or quality of the

accounting information was not sufficient for the particular project, Norwegian general manager and chief accountant were responsible for preparing additional reports that which are sent to the headquarters, where they were further processed.

5.1.2.2 Myth of Contracts and Associated Obligations

Besides difficulties in the inter-organizational relationships, Russian production subsidiary had troubles, coming from the external subcontractors.

Another western myth assumes when the agreement is signed, all associated terms and conditions must be followed, unless otherwise is stated. However, the history of Rossnor shows that a fixed deal is never fixed in Russia.

The case of buying facilities at Metallist was the first negative example, which has challenged this assumption for the first time. Then, in 2005 the management of Rossnor overestimated the reliability of its Russian subcontractors, and experienced a hold-up problem, by involving itself in the “gamble” (see section 4.1.3).

This deal was, perhaps, an exception rather than the rule, but, nevertheless, operating in Russia, managers should foresee such threats before making an agreement. Western myth assumes merging and organizing vertical integration with suppliers and subcontractors in order to build reliable and close business relations. Rapp Marine tried to implement this technique in Russia by organizing ETC-Stalcon in 1997.

Reinertsen has avoided such problems by simply not involving itself in any serious business relations with the Russian counterparts. However, it is not a solution for the long-run. Reinertsen won't be able “to live” in Russia without somehow being engaged in the Russian business. One day they will be involved in the Shtokman project, being a link in the supply chain, consisting of many different companies from several countries, and in order not to repeat the negative experience of Rossnor, management should be prepared for the potential threats, coming from the outside.

5.1.2.3 Myth of Export and Customs

In the conscience of the Norwegians customs is associated with a formality, which requires a few resources to handle. On the contrary, Russian customs turned out to be an unpleasant surprise for western people as it represents a serious bureaucratic obstacle. Necessity of printing out hundreds of pages of documents, including the constituent documents, every time company sends a container with goods is only one example of how Russian Customs differ from the Norwegian. Managers from both Reinertsen and Rossnor argue that it is a “headache” for them. Then, multiplied by paying high fees and spending long hours or even days on the border, this myth can become even a nightmare.

However, this bureaucratic barrier can be handled by adapting to the conditions of the Russian Customs. Optimization was reached in both companies by being precise in collecting all the necessary documents beforehand and being prepared for payments of all the necessary fees, together with leaving more time for export, when planning the shipping of finished goods. This myth was challenged and Norwegian management took a new assumption, that export consumes more resources than it is in the West and needs patience.

5.1.2.4 Myth of Trust and Information Sharing

Trust plays an important role for joint ventures. The level of trust influences the level of information to share with the partners. Norwegian myth was that business partners within one company are honest with respect to each other and can trust each other. This assumed high level of information sharing within the company.

Two completely different points of view of production and general managers on the increase in price of finished goods on each step of the value chain raised questions with regards to the level of information sharing in Rossnor (see 4.1.5.9).

The reason for that could lie in the lack of trust and, therefore, lack of information sharing in the later years. Production manager neither believed nor was not aware of which prices Rapp Marine charged to its final customers. This information is strategic, and was above his authority, due to his major responsibilities lied on the operational level. This uncertainty gave birth to the informal break between production department and the rest of the company and MCS didn't identify that threat. Moreover, there was a challenge for management control system itself to operate in the conditions of distrust.

Reinertsen has avoided such problems, because the strategic and potentially sensitive information was shared only between the Norwegian top-management, Russian managers received a minimum level of information, sufficient for the production activities.

5.1.2.5 Myths of Overhead Costs and Optimal Amount of Employees

According to perspective of the Norwegian managers overhead costs should not be huge. To be competitive, costs should be minimized and overhead costs are the first to be cut. In Russia overhead is usually higher, compared to Norway, due to higher amount of non-productive employees. That created tensions on how many employees were enough for Rossnor. Norwegians insisted on reduction of staff when market went down and production decreased, but Russian management couldn't handle that problem, because their belief was completely different.

That has created a principal-agent problem. Different goals were driven by different beliefs and assumptions. Therefore, the challenge for MC in this case is to be able to identify and maintain the optimal amount of required employees, and also to set appropriate incentives.

Reinertsen also faces similar problems due to the low productivity at the Russian site, which resulted in the necessity to hire more operators, which increases the overall level of costs. However, Reinertsen is much more flexible in the question of hiring and dismissing employees, depending on the amount of work at the facility. On the whole it is difficult to handle such challenge, especially when the myths are so different, and neither of two parties changes its assumptions.

5.1.2.6 Myth of Organizational Structure and Culture

Norwegians believed that flat organizational structure is important and can be transferred to the Russian case. The Russian myth is that organizational structure should introduce a hierarchy with strict subordination. So, there was a problem how to combine this?

Rossnor has produced a kind of hybrid solution – flat organizational structure was on the top, but hierarchy existed on the bottom level. Reinertsen has built a hierarchy in Russia, which is paradoxical at first sight. I believe this implies that management of Reinertsen was aware of the Russian myth of organizational structure before coming to Murmansk and, therefore, predicted solution that could be most beneficial with regards to kind of organizational structure to establish in the Russian subsidiary.

As to the business culture Rossnor managed to organize Norwegian business culture only at the “office level.” At first look it seems as a positive achievement. However, having considered it more detailed, we can see that it has produced dysfunctional consequences. Employees of Rossnor had many safeguards that other Russian companies didn’t offer to their employees (see above 5.1.2.5 and 4.1.5.6). But they developed neither commitment nor gratitude to the company and owners. On the contrary, that has created inactivity of the Russian managers that has “infected” its subordinates as well. Company was drifting to nowhere during the last three-four years, instead of “rowing” and trying to overcome the period of stagnation.

Implications for managers in this case were twofold, depending on whose point of view to take. Bjørn Aaselid became tired of constant “baby-sitting” of Russian managers. At that time, business was rather mature, and he believed that Russians could run the company without his direct involvement. Russian management, in his turn, thought that the company was dying and there was a lack of faith in future. That was the time to search for new solutions and ideas, which could lead the company out from the stagnation. New vision and strategy should have been elaborated, to promote the drive to go forward, to rethink the incentives for the employees.

Norwegian managers of Rosssnor have questioned their assumption concerning the need of establishing western organizational culture, but it was too late, it has already produced irreversible outcome.

As to Reinertsen NWR, managers were striving to adopt Norwegian production culture, which Rosssnor didn't manage to achieve. However, it is a long-lasting process with many pitfalls, and Reinertsen is still on its way.

5.1.3 Myths, associated with Operational Control Level

5.1.3.1 Myth of Quality and Time Delivery

Quality is a key for competitiveness in the modern business. Russian partners of Rapp Marine, however, were not quality-oriented. The focus of the production department has always been to produce goods at lower costs without purpose to be the best in quality. This caused an ongoing debate between Norwegian and Russian managers during all the years of cooperation. Aaselid, however, came to conclusion that only by producing a big batch of goods Rosssnor could ensure better quality, than when few units were produced.

These were the implications of the personal and cultural features of the Russian people, connected to the level of customer-orientation as well as the balance between the costs and benefits, with respect to each deal. Norwegian managers proved to be more quality-driven and oriented on satisfying the customer's needs. Perhaps, production department (as subsidiary of Rosssnor) didn't perceive the buyer of goods (another subsidiary of Rosssnor) as a customer, while the final customer was distanced from it.

Reinertsen managed to avoid much of the quality problems that Rosssnor faced, by overtaking control over the production by the Norwegian party. Among the solutions: they've been sending operators for training to Norway, there were specialists, who were inspecting Reinertsen's facilities in Murmansk and they have implemented the same quality standards that were used at the Norwegian facility.

Reinertsen NWR adapted their MCS to the Russian mentality, by implementing Norwegian rules and regulations within quality and also safety, which helped to be as good in quality as its facility in Orkanger. Rapp Marine was struggling for the quality from the first until the last day of their operations in Russia, but they didn't manage to fully adapt their Norwegian quality system to the Russian context.

Similar situation was with the time delivery of finished goods. To find reliable suppliers in Russia was an extremely difficult task for Rosssnor. The majority failed to deliver on time, in addition the production department was often late with the production and shipment of the finished goods. Several cases of fail to deliver in time in Reinertsen was caused by the low

productivity of the Russian shop, and as a result, some operations are being done at Norwegian fabrication yard.

The challenges, associated with quality and on-time delivery, can be handled by setting organizational vision and mission with focus on creating value for customers, and by implementing quality system as it is done in the case of Reinertsen NWR.

5.1.4 Summary

There were ten different myths among Norwegian and Russian managers, revealed in these two cases. Almost all of the myths have created challenges for the management control systems. However, during the functioning of the companies some of the challenges have been handled, but not all. Reinertsen NWR has avoided many of the challenges that Rossnor faced, due to its 100% Norwegian ownership (the myth of ownership and reward, ownership and governance as well as the myth of trust and information sharing), while Rossnor couldn't resolve problems. Some solutions differed in Rossnor and Reinertsen NWR, but some of them were the same, for instance, approach to handling the problem with customs was similar for both companies. All in all Reinertsen NWR have experienced fewer unresolved myths, than Rossnor, because of the certain structure of ownership, different types of controls and, perhaps, due to rather short history. Now I'd like to consider how MCS was designed for handling the challenges, induced by different myths.

5.2 Design of MCS: Balancing Four or Three Levers of Control?

"Give me a place to stand, and I shall move the Earth with a lever"

Archimedes

In mechanics levers are used for exerting a large force over a small distance at one end by exerting only a small force over a greater distance at the other. Translated on the language of management it means that by manipulating the right levers, which are connected to the proper control systems, managers can exercise control by exerting a "small force". However, if at least one lever is absent it means that managers need "large force" to influence the system, which is extremely hard.

Let's see on the configuration of the management control systems as a combination of boundaries, beliefs, interactive and diagnostic control systems.

5.2.1 Interactive Controls: Problematic due to Language Barrier

The interactive control is about interplays between managers on different levels in order to perceive the strategic uncertainties for the company and to find the solutions for handling them.

Discussion

In my cases this control lever was explicitly presented in a way of meetings, planning sessions, and others.

This type of control was of a critical importance for Rossnor during the first years of its history, when Norwegian side held negotiations, associated to the establishment of the company, both with the Russian authorities and new Russian partners. At first, they were searching for a place to organize office, then, they were looking for facilities, where to produce goods. As business began “gaining its momentum”, numerous of new problems arose every day, as lots of changes occurred, and that required focus and attention from managers of all levels. This type of control was a platform for continuous communications with counterparts, potential subcontractors, and subordinates.

However, interactive control was not unproblematic. Few of the Russian partners could speak English good enough. Language was a serious barrier for interactions and, as a result, an obstacle for production. The solution to this problem was that Norwegian manager had to learn Russian language. It has, therefore, become easier for him to communicate with the Russian managers and workers and, in general, this type of control became much more effective. In addition there were translators, hired by the company. In Reinertsen the language problem was handled by hiring Russian-speaking Norwegian managers. Such solutions made interactive control personal, more individual-dependent, more subjective, due to not only different languages were translated, but also different cultures were interpreted. Rossnor proved that big Board meetings were challenged by the language barrier, while Reinertsen has shown how production meetings, involving just several employees of different nationalities, could be useless.

Though the Board of Directors Meetings are a part of the strategic planning and control system, in Rossnor, as a rather small company, where the Board was represented by the key managers, BM had such a character that assumed discussions of not only strategically-important questions, but also issues on the managers’ agenda. Thus, BM was also a part of the interactive control system.

Interactive controls, however, have lost their previous importance for two-sided relationships in the joint venture in the last years, when Russian speaking Aaselid moved away from Russia. By distancing himself from the business, interactive controls lever also became more distanced, and as a result, its ability to handle strategic uncertainties has weakened. Then management relied more on other types of control, e.g. diagnostic and boundaries.

Opposite to Rossnor, the role of interactive controls in Reinertsen NWR stayed always important. Employment of Svein and Tore Grande had twofold benefits. From one side these Norwegians held a dialogue with top-management and at the same time they worked in a close contact with workers. They obtained all the necessary information from one party and

communicated to another, were trusted by Norwegian management and have respect among Russian employees.

Although both Grande didn't have formal education within management, they had a tacit knowledge from farming and excellent language skills that turned out to be of greatest importance in their work. The experience of living in Belarus, a former republic of USSR, with culture, traditions and mentality very close to the Russian and common history, was key. Svein Grande told me that he had "two heads: one Russian and one Norwegian." These "heads" helped him to be a critical link between the Norwegian headquarters and the Russian facility, which allowed holding an ongoing debate and ensuring that Norwegian rules and norms are followed all the way.

All in all, interactive lever was "on place" in both companies, but in Rossnor it was as a "stuttering man", not always functioning as intended. This kind of control was supposed to stimulate search and learning, allow new strategies to emerge as participants throughout the organization respond to perceived opportunities and threats. However, this was partly achieved in the beginning of the history of Rossnor, when the idea to restructure the company for the first (in 1993), and then for the second time (in 1997) emerged. At that time this system has focused managers' attention on strategic uncertainties and enabled strategic renewal. But Rossnor didn't manage to save the system in that condition, thereby, slowed down the process of the organizational learning, which could be reinforced by the interactive controls as a tool for testing cause and effect relationships within the company.

5.2.2 Diagnostic Controls: Challenged by Physical and Cultural Distance

The purpose of diagnostic system is to eliminate a manager's burden of constant monitoring. Instead of constantly monitoring a variety of internal processes and comparing results with preset targets and goals, managers receive periodic exception reports from different staff groups. However, in a multinational company, this type of control requires special attention, due to different attitudes towards information and its use across countries (myth of trust and information sharing).

In Reinertsen NWR this type of control was tightly connected with interactive controls. Managers regularly communicated results on how things were going on in the shop. They presented the key indicators of the production. In addition to the oral presentation of the current results, Russian subsidiary is accountable to the parent company in a way of production reports for each project. Reinertsen NWR is not perceived as an international company, but, on the contrary, as a "distanced subsidiary." The difference between the Russian and Norwegian fabrication yards is in the nationalities of the operators and employees. In this case the most

challenging task for managers was to accustom the workers in Murmansk to act as their Norwegian colleagues do, follow the same norms and regulations. Diagnostic control played a critical role for company in adopting Norwegian myth of production culture at the Russian fabrication yard.

In theory, diagnostic control systems are used to motivate, monitor and reward the achievement of specified goals (Simons, 1995). And Reinertsen NWR has designed its control system way that Simons suggest. Up-to-date information, concerning key performance indicators is being distributed throughout the organization effectively.

Together diagnostic and interactive control systems are designed in Reinertsen in a way that helps in resolving several myths, such as quality and time delivery, customs and export, and also aid in establishing production culture according to the Norwegian beliefs.

In Rossnor, management was obliged to deliver to the Norwegian executives the following reports on a regular basis: financial accounts, budgets, borrowings, strategy and operating plans, etc. In the later years the role of this type of control has enhanced in the joint venture. Aaselid, being distanced from the Russian subsidiary, needed to exercise control over the operations in Russia. This was primarily done through reports, which he received from Rossnor regularly. But, he was rather skeptical, concerning the quality of financial accounting information that was reported to him the later years, implying that the real picture could be different from what was standing in the accounts.

Thus, the design of the diagnostic controls has suffered from the information asymmetry and physical distance, implying inability of Norwegian manager of direct observations and personal intervening into the daily problems. In this respect, diagnostic control in Rossnor couldn't resolve the myth of trust and information sharing.

Though, the myth on the role and use of accounting was resolved in the beginning (see 5.1.2.1), in the later years it was challenged again. The quality of accounting information has deteriorated, which was induced by the distancing of the Norwegian manager and consequent weakening of interactive and beliefs controls.

By using accounting, in theory, managers can exercise control and monitoring on a distance, but it becomes problematic to maintain the right myth on both cultural and physical distance in the case of joint venture.

5.2.3 Beliefs Controls: Lack of Vision and Corporate Values

The goal of beliefs system is to inspire employees to create new opportunities, to motivate them to search for new ways of value creation. Participants from all parts of an organization need to understand, as clearly as possible, the company's purposes and mission, the core values of an

organization, its corporate code of conduct. Managers' task is to communicate this kind of knowledge and to promote the employees' commitment toward the company's values.

Considering Rossnor from the perspective of 4 levers of control, I came into conclusion that one control system was lacking. During the interviews, I found out that only in the beginning phase the company had a certain vision and commonly shared values, but as time went that drive has disappeared. Managers were organizing common feasts, sharing traditions of celebrating national holidays of two countries, trying to mitigate cultural differences by spending time leisure time together (Bang and Bourmistrov, 1996). However, in the later years there were either lack of pre-established corporate values, the code of conduct and commitment to what they were doing or, perhaps, the beliefs system was absent at all.

As to the Russian subsidiary of Reinertsen, they also didn't have explicit beliefs system, specifically established for the facility in Murmansk, but the department was deeply incorporated in the parent company, followed the same code of conduct and shared common organizational values. The mission and vision of the company were communicated from the headquarters by Norwegian managers working in Russia. Perhaps, the system was not as explicit as Simons suggest, but it produced good results in combination with boundaries system, something what I cannot say about Rossnor. Let's now consider the boundaries lever of control.

5.2.4 Boundaries Controls: Underestimated the Local Context

Boundary systems used to set limits on opportunity-seeking behavior. In Rossnor boundaries were prescribed in the guidelines and procedures for management, established by the Board of Directors. The goal of this lever of control in Rossnor was to promote transparency, openness in business, to aid in establishing Norwegian business culture and resolving myths, associated with ownership and governance, organizational structure and culture and others.

Reinertsen was able to set clear boundaries for its Russian subsidiary due to the ownership structure. Division in Murmansk was under the strict control, operating according to preset patterns. Top-managers did not expect from Russian managers much creativity or innovation, which Simons is emphasizing, when discussing the balanced use of four levers of control.

These systems differ between two companies, because of the core differences in the ownership structure. Boundaries system for Reinertsen is central, because it allowed production according to the norms and requirements of the Norwegian oil and gas companies. Such tasks require from operators and managers to act within certain limits, standards and norms.

Rossnor, on the contrary, has provided much freedom for action for their Russian partners, because joint venture model and organizational structure assumed equal rights. In my opinion boundaries system in Rossnor was rather weak, which was enhanced by the lack of beliefs

system. Boundaries should be embedded in standards of ethical behavior and codes of conduct in companies. Some of the Russian managers as other human beings are inventive and sometimes they can choose to bend the rules due to different reasons. That's why I assume that the importance of the beliefs and boundaries systems were underestimated in this case. I argue that Norwegian managers believed that boundaries controls were not important because of their myths of organizational structure and trust. However, in the bi-cultural environment it is necessary to establish boundaries, because what is within the limits in one culture can be unacceptable in another. That's why clear-cut delimitations are needed.

Setting boundaries seems not end, the more important task is to set this system in motion, to control that managers overseas are behaving within the predetermined limits. In addition, boundaries should be constituted by beliefs system, because left without further implementation these two systems can produce unpredictable results.

5.2.5 Summary

In this section I have analyzed the design of MCS of two companies from the perspective of the four levers of control. On the figure below I'm representing a model of the MCS design applied to the case of Rossnor.

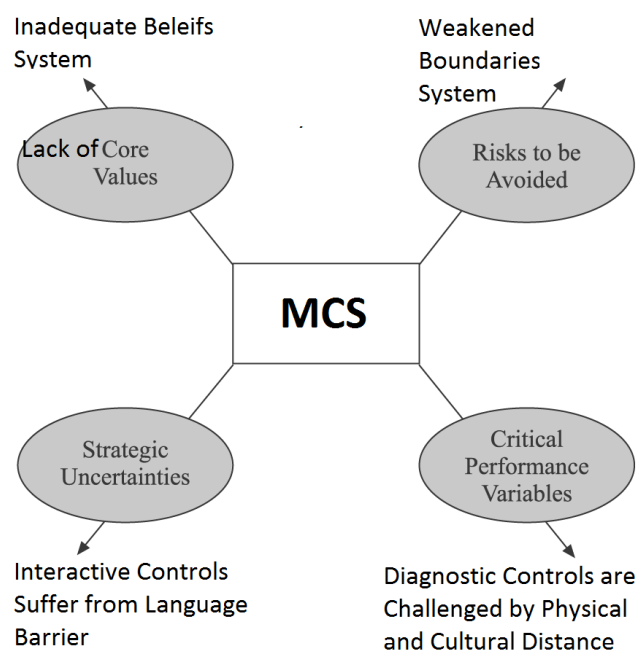


Figure 5.2 – Levers of Control in Rossnor (adapted from Simons, 1995)

The analysis shows that design of MCS in Rossnor was changing and different levers of control were substituting one another over time. But often these changes were unintended and induced by cultural and physical distances between joint venture partners, leading to undesired consequences. There were many challenges for MCS, caused by the differences in myths of management.

Interactive controls in both companies suffered from the language barrier. The solutions to that problem had a negative consequence: interactive control system became personal-dependent. The case of Rossnor also revealed that when manager becomes distanced from the business, interactive controls are challenged by this distance and lose its functionality.

Diagnostic control system was functioned more or less stable during all the company's life-cycle, but this system has suffered from the information asymmetry (myth of trust and information sharing). The case of Rossnor reveals that exercising management control on a distance is challenged by cultural and physical distance.

As to the boundaries system, in Rossnor it was not functioning fully. The Board didn't pay much attention to the importance of setting boundaries for the management. In contrast to Reinertsen NWR, with its subordination, strict rules and limits, Rapp Marine was building relationships, assuming trust, and equality between two partners, which resulted in the weak boundaries control system.

Inadequate beliefs system in Rossnor was a detrimental for the company's performance. By not promoting common vision and drive to go forward managers didn't aid to the mitigating of differences in myths among managers.

Working together, boundary systems and beliefs systems must result in a dynamic tension between commitment and punishment. Together these systems could establish direction, motivate and inspire, and protect against potentially damaging opportunistic behavior. However, that was not achieved in Rossnor. On the contrary, configuration of the levers of control in Reinertsen has led to positive results and MCS was designed for avoiding and handling different challenges.

The analysis shows that all four levers of control are interrelated, and should work together, constituting, but not substituting each other. The lack of one control lever induced the weakening of another (e.g., boundary and beliefs and diagnostic and interactive in Rossnor. See 5.2.3)

A Little about the Design and Mobilization of MCS

The Design of MCS determines how organizational activities are going to be carried out to achieve coordination. The quality of the design of MCS can be assessed as how good MCS can adapt to the changes in the cross-cultural environment.

Mouritsen (2005) has warned that design could "run wild", if left adrift, and that managers must analyze and predict situations where designs could fail. Mobilization of MCS is the process of intervening into the design, when changes are needed, and redesigning it. In my opinion MCS of Rossnor needed continuous mobilization, due to changing strategic uncertainties as well as cultural and physical distances between partners.

I assume that the lack of beliefs and boundaries system in Rosssnor in the later years has occurred because managers didn't add certain processes and supplements, like code of conduct, organizational vision and mission others, which were required for mobilizing the design. Why did it happen? I believe that organizational learning was required for the design to be mobilized in a way that would assist in handling challenges.

5.3 Single-Loop learning vs. Double-loop learning: how much is enough for joint ventures?

Having considered different myths of management with associated challenges and solutions and having analyzed the design of MCS, following the logic of the chapter and the model (figure 5.1), in this section I'm discussing how companies have been learning.

According to Fiol and Lyles (1985) there are two types of organizational learning: single-loop learning and double-loop learning. Having applied this framework to Rosssnor, I assume that the company was using only the first type of learning and it was based only on the repetitions of previous behaviors and creation of logical associations. The example of single-loop learning in Rosssnor is when managers broke cooperation with Tolyatti and Kirovski, and, thereafter, decided to organize their own production company ETC-Stalcon. Thus, they have developed a solution, based on their previous negative experience, which has changed their behavior. However, such learning process had a short-term focus and is unable to establish new rules and associations, regarding new actions.

It seemed to be insufficient, applying only one type of organizational learning in Rosssnor. Due to the main challenges for managers of Rosssnor were coming from the differences in myths, the company needed to use double-loop learning. On the figure 5.1 we can see that this kind of learning is engaging in the process of learning not only problems and solutions, perceived by managers, but also their myths and beliefs. MCS is learning together with the organization, and in this case it is being designed and mobilized with management myths, taken into consideration.

Double-loop learning aims at adjusting the assumptions of managers, rather than just specific activities or behaviors. For Rosssnor, double-loop learning was critical, because it could lead to the change in beliefs, and, therefore, mediate cultural tensions between the joint venture partners. Another advantage of such learning is that it has long-term effects and impacts the organization as a whole.

We can see that both companies used single-loop learning, but joint-ventures, as Rosssnor proved, are more challenging, compared to FDI. The first section of this chapter reveals that Rosssnor had much more unresolved myths, than Reinertsen did, and, therefore, double-loop learning was needed for this company. Single-loop learning captured only a certain element adjustments without changing or at least questioning the myths and assumptions of managers.

Discussion

Therefore, this type of learning didn't make it possible for Rossnor to build a new model of joint venture, when changes in structure were needed. By using two types of learning, joint ventures are able to adapt to the changing environment (myths) and enhance their ability to survive.

The practical outcome of learning processed for the company is in the change of the design of MCS. I assume that such change is interrelated with the process of mobilization. By learning, organizations are mobilizing the design of their MCS in a way that will make it possible to resolve new challenges, arising from new differences in beliefs.

6. Conclusions

In this Master's Thesis I've raised the issue of the challenges for management control in a cross-cultural setting, having investigated two cases of Norwegian companies, operating in Russia. I've discussed perceptions of managers from different cultures on the same planning and control procedures and studied their experiences of how they were handling the challenges, which occurred when different myths collided.

In following sections I'm presenting the main conclusions, key analytical findings and the contribution of my research.

6.1 Interpreting and Handling Challenges for Management Control

During the work on the thesis I've found that Russian and Norwegian managers have different system of beliefs and different ways of doing. It has direct implications for their behavior and management style. When these two contexts meet in one company conflicts often occur. The differences in contexts or myths shouldn't be left without further consideration, because, otherwise, they can create tensions on strategic, management and operational levels. They should be always accounted when changes occur in management control system, due to designing, redesigning, mobilizing or learning.

My research has defined 10 beliefs, differing across Russian and Norwegian managers. These are myths, regarding ownership and reward system, ownership and governance, board formalities, the role and use of accounting, contracts and associated obligations, export and customs, trust and information sharing, overhead costs and optimal amount of employees, organizational structure and culture, quality and time delivery.

Some of these myths are deep inside manager's mentality, others are not so strong, but it is a challenging task to change most of them. However, the solutions could be reached when two parties of a joint venture are questioning their beliefs and altering them in order to find a convergence.

This has implications both in management control system and for it. The analysis of the levers of control in Rossnor points on the lack of core corporate values, common vision and preset clear-cut boundary system. In addition interactive controls were problematic due to the language barrier and diagnostic control system was challenged by cultural and physical distance between managers of the joint venture. MCS was unable to solve those challenges and couldn't avoid failure, due to inadequate learning.

Reinertsen, in his turn, had fewer problems. Norwegian myths were dominating over Russian in the company, due to 100% Norwegian ownership and established western business culture.

However, unresolved myths were questioned by management, analyzed and handled by the balanced use of the management control levers.

Diversity along each cultural characteristic was setting barriers to the effective operation of Rossnor. Cultural differences have challenged the process of generating commitment between partners of joint venture. Organizational culture distance and national culture distance had negative impacts on joint venture performance. Management control system was not adapted to the Russian context and the Board couldn't predict threats, when they already were on a short distance. That's why the local context shouldn't be underestimated in joint ventures!

6.2 Major Analytical Findings

Challenges for management control are induced by differences in myths of management between partners, coming from different cultures. These myths are about perceptions of managers on how management control systems should be designed and how operations should be done.

In order to be able to handle these problems myths should be resolved somehow. Management control systems are designed based on the interpretations of managers of how these myths should be handled. Different designs influence the capability of management control systems to solve problems.

Management control system will never be fixed, managers should learn in order to capture whether it produces intended effects. The process of learning has a dual nature. From one side organizations require single-loop learning, and in my cases it proved to be an effective way of changing and adapting companies as well as resolving some of the myths.

But what has led to problems for companies and to the failure of Rossnor is that double-loop learning was not sufficiently introduced in the case of the joint venture. This type of organizational learning is critical for such types of companies as it challenges myths and beliefs of managers and lead to the change of their assumptions and creation of new frames of references.

6.3. Contribution of the Research

The research has showed, on the example of Rossnor, that joint ventures can have many different kinds of myths. Management control system in my case was challenged and couldn't resolve many of them. However, the example of foreign direct investment proved that there were fewer myths, due to the ownership structure, and the majority of them were handled by management control system. This raises a question whether benefits of joint ventures are worth than its costs.

Conclusions

In this respect, I believe that there is a need to revisit the theory of joint venture and to reconsider the role of management control for joint ventures in different countries and cultures, especially in countries with transition economies. It seems important to study more on how management control systems are designed in joint ventures, how managers perceive and handle challenges, caused by differences in beliefs.

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Appendices

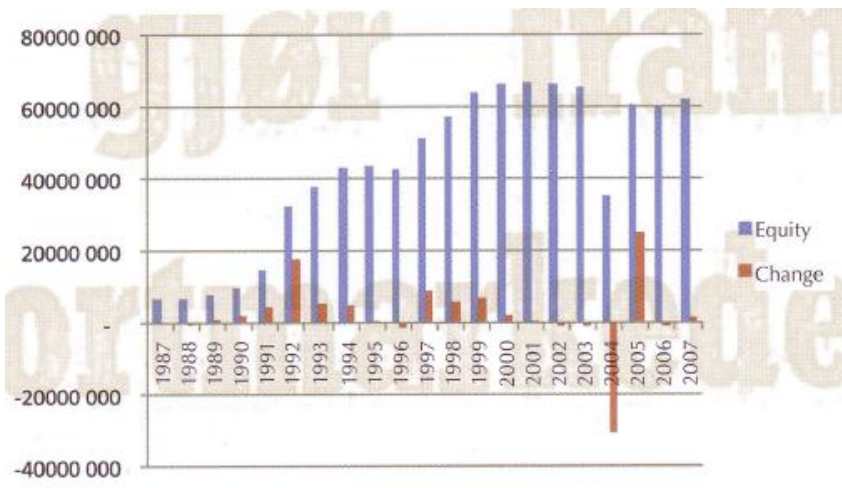


Figure A.4.1 – Changes in Equity of Rapp Marine Group during 1997 – 2007 (Olsen & Jenssen, 2009)

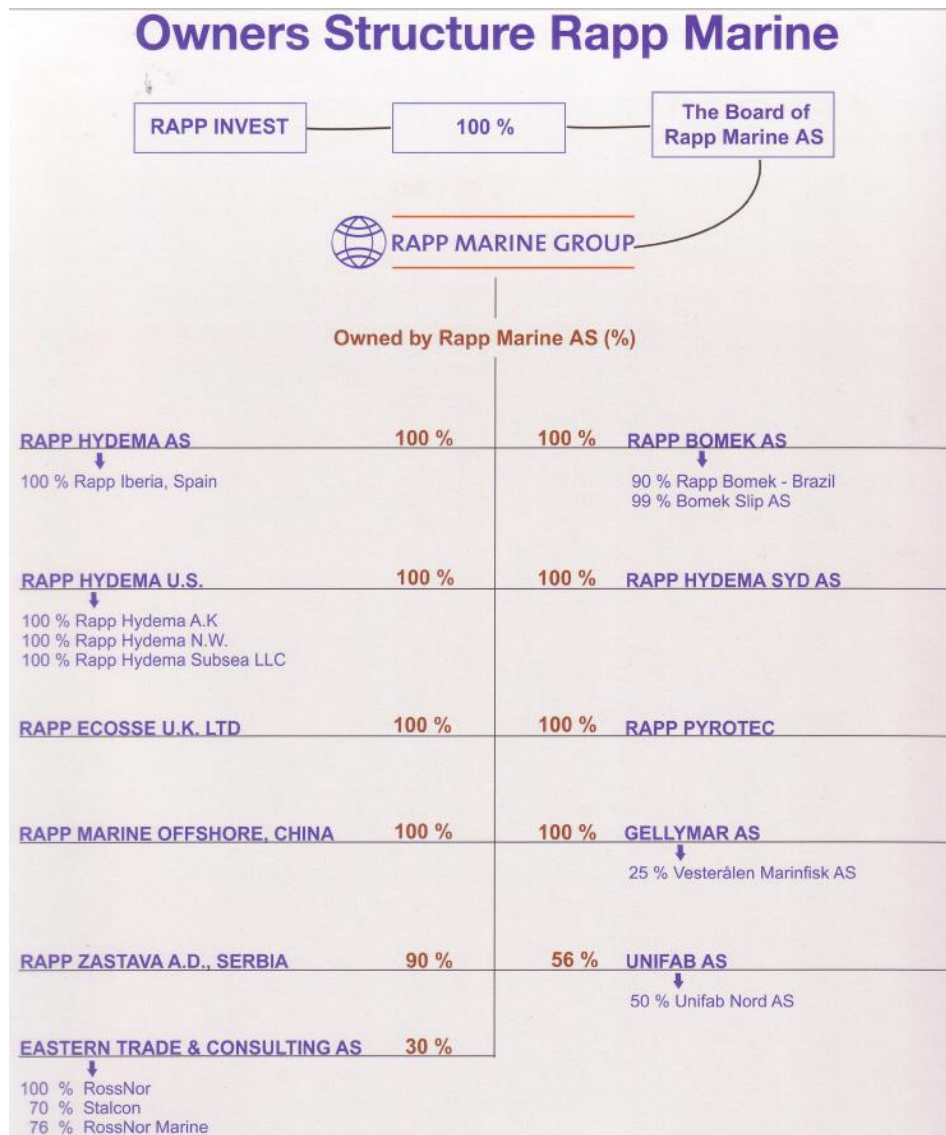


Figure A.4.2 – Owners structure of Rapp Marine (Olsen & Jenssen, 2009)



Figure A.4.3 – Geography of Rapp’s production facilities (Olsen & Jenssen, 2009)

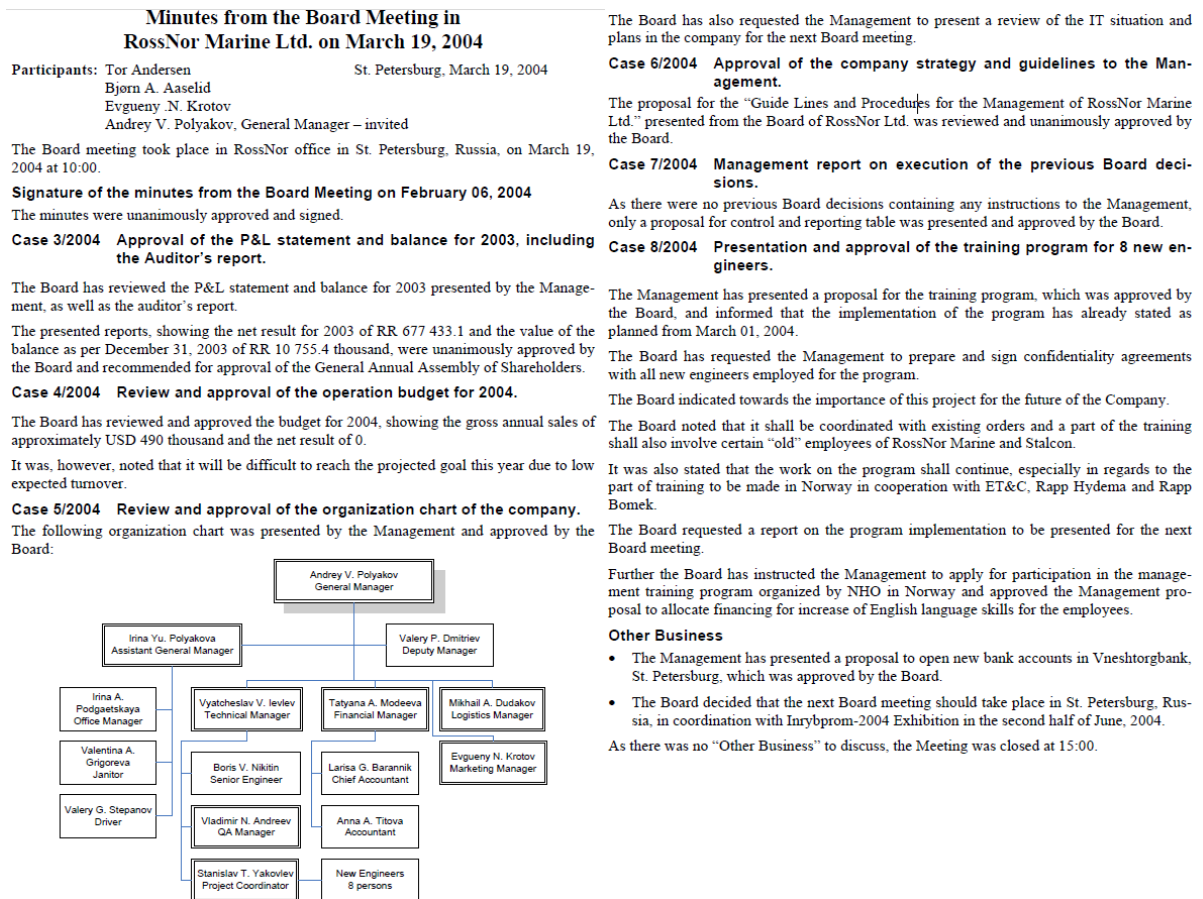


Figure A.4.4 – Minutes of the Board Meeting in Rossnor Marine (2004)

Appendices

Agenda for the Directors Meeting in ETC-Stalcon on September 27, 2001 at 12:00

Participants: A.A. Kurganov St. Petersburg, September 10, 2001
 V.A. Romanov
 A.V. Poliakov
 B.A. Aaselid
 V.N. Andreeva – Chief Accountant – invited (p. 1 and 2)
 G.V. Stroganova – Auditor – invited (p.1 and 2)
 V.V. Ievlev – invited (p. 3.2)

1. Report from the Auditor as to the physical evaluation of the inventory with ref. to the instruction from the Chairman of August 29, 2001.
2. Financial reporting for the 1st and 2nd quarter 2001 and preliminary results for the 3rd quarter.
 - 2.1. P&L Statement
 - 2.2. Balance sheet
 - 2.3. Cashflow situation
3. Production program and financial forecast for the rest of the year
 - 3.1. Report on deliveries during 2001
 - 3.2. Quality review
 - 3.3. Forecast for the rest of the year
 - 3.3.1. Gearboxes and winches
 - 3.3.2. Ship equipment
 - 3.4. Detailed cash flow projection based on the planned production.
 - 3.5. Estimated physical stock value at yearend.
 - 3.6. Evaluation of employment and fixed cost in relation to workload and turnover.
4. Development plan for Stalcon
 - 4.1. Strategy and goals
 - 4.2. Board of Directors meetings
 - 4.3. Production organization
 - 4.4. Production and financial planning
 - 4.5. Action plan with schedule to meet the remarks from the QA review made by Mr. Alexei Andreev this summer.
 - 4.6. Updated investment plan with schedule and cost estimates.
 - 4.7. Plan for implementation of Concorde.

Full documentation and proposals for the above cases shall be prepared by the management in English and Russian languages and handed over to the Directors by September 20, 2001.



 Andrei Polizkov
 Chairman of the Board



Figure A.4.5 – Agenda for the Board of Directors Meeting at ETC-Stalcon together with the Organizational Chart of the company

Appendices



ROSSNOR

ROSSNOR LTD.

P.O. Box 162, 190020, St. Petersburg, Russia
Phone: (812) 337-14-05/337-14-06
Telefax: (812) 337-14-07
E-Mail: office@rossnor.spb.ru

Minutes of the Board Meeting in RossNor Ltd. on September 27, 2005 at 11:00

Participants: B.A. Aaselid
Tor Andersen
A.V. Polyakov, General Manager
I.Y. Polyakova, Dep. General Manager – invited
N.N. Polyvyannaya, Assistant Financial Manager – invited

September 27, 2005

The Board meeting took place in RossNor Marine Ltd. office in Saint-Petersburg on September 27, 2005 at 11:00 according to the following agenda:

Signature of the minutes of the Board meeting of July 28, 2005.

The minutes were approved and signed by the Board members.

Case 05/2005 Review of preliminary financial statement for 9 months 2005.

Case 06/2005 Cash flow projection.

Case 07/2005 Market study report.

**Case 08/2005 Preliminary report on feasibility of purchase and upgrading
“Trud” facility at Izjorsky Works.**

Other Business



ROSSNOR

ROSSNOR MARINE LTD.

P.O. Box 162, 190020, St. Petersburg, Russia
Phone: (812) 337-14-05/337-14-06
Telefax: (812) 337-14-07
E-Mail: office@rossnor.spb.ru

Minutes of the Board Meeting in RossNor Marine Ltd. on September 27, 2005 at 14:00

Participants: Tor Andersen
B.A. Aaselid
E.N. Krotov
M.A. Dudakov
A.V. Polyakov, General Manager
I.Y. Polyakova, Dep. General Manager – invited
N.N. Polyvyannaya, Assistant Financial Manager – invited

September 27, 2005

The Board meeting took place in RossNor Marine Ltd. office in Saint-Petersburg on September 27, 2005 at 14:00 according to the following agenda:

Signature of the minutes of the Board meeting of July 27, 2005.

The minutes were approved and signed by the Board members.

Case 08/2005 Review of preliminary financial statement for 9 months 2005.

Case 09/2005 Cash flow projection.

Case 10/2005 Delivery/shipping plan.

Case 11/2005 Order back log and forecast.

Case 12/2005 «New engineers» program.

Case 13/2005 Feasibility study for the production of winches for Saipem project.

Case 14/2005 Market study report.

Other Business

Figure A.4.6 – Minutes of the Board Meeting in Rossnor and Rossnor Marine on September 27, 2005 (front pages of total 23 pages of minutes)

Appendices

Profit and Loss Statement for 6 months of 2005 (in RUR)

	Jan.	Feb.	Mar.	1Q.2005	Apr.	May	June	2Q.2005	2005
Sales (Реализация)									
Gross Sales incl. VAT (Всего реализация вкл. НДС)	475 818	481 463	476 321	1 433 602	478 601	483 028	498 644	1 460 273	2 893 876
VAT (НДС)	-72 582	-73 444	-72 659	-218 685	-73 007	-73 682	-76 064	-222 753	-441 438
Net Sales excl. VAT (Чистая реализация без НДС)	403 236	408 020	403 662	1 214 918	405 595	409 346	422 580	1 237 520	2 452 438
External Cost of sales (Внешние затраты на реализацию)									
Salaries and social tax (Заработная плата и социальные налоги)	-87 786	-83 497	-90 357	-261 640	-83 863	-84 462	-83 928	-252 252	-513 892
Rent to the Landlord (Аренда помещений)	-41 312	-41 312	-41 312	-123 936	-40 882	-40 882	-40 882	-122 646	-246 581
Utilities for own needs (Коммунальные платежи помещений)	-22 754	-31 041	-21 517	-75 312	-20 455	-15 921	-10 167	-46 543	-121 856
Phone and Internet services (Услуги связи)	-4 871	-4 917	-18 736	-28 523	-3 208	-28 321	-15 266	-46 796	-75 319
Security (Охрана)	-4 093	-4 144	-4 308	-12 545	-4 224	-4 424	-4 554	-13 202	-25 747
Major purchases (Покупка основных средств)	-58 862	-58 862	-61 182	-178 906	-58 862	-58 862	-58 862	-176 586	-355 491
Depreciation (Амортизация)			-2 549	-2 549					
Advertising cost (Расходы на рекламу)	-31 701	-32 439	-32 342	-96 482	-32 342	-32 342	-32 342	-97 026	-193 509
Consulting (Консультационные услуги)	-267	-267	-267	-802	-267	-267	-267	-802	-1 604
Expenses for business-trips (Расходы на командировки)		-12 000	-2 162	-14 162	-1 600		-1 398	-2 998	-17 160
Taxes included into cost (Налоги, относимые на затраты)				0		0	-27 324	-27 324	-27 324
Other Costs (Прочие затраты)			-14 192	-14 192		0	-13 951	-13 951	-28 143
Total External Cost of sales (Итого внешние затраты на реализацию)	-256 622	-277 822	-295 457	-829 901	-255 282	-272 579	-301 080	-828 940	-1 658 841
Operating result (Прибыль от продаж)	146 614	130 198	108 205	385 017	150 313	136 767	121 500	408 580	793 597
Financial items and other expenses (Прочие доходы и расходы)				-11 035	-1 537	-14 643	-21 053	-37 234	-48 268
Gain on Exchange Rate Variation (Доход от курсовых разниц)		9 321		9 321	1 590			1 590	10 911
Loss on Exchange Rate Variation (Убытки от курсовых разниц)	-10 074		-1 554	-11 628		-9 579	-17 406	-26 985	-38 613
Bank fee (Услуги банка)	-1 295	-1 520	-2 098	-4 913	-1 547	-1 311	-1 772	-4 630	-9 543
Debts amortization (Резерв по сомнительной дебиторской задолженности)									0
Other Financial Items (Прочие внереализационные доходы/расходы)	-818	-2 008	-989	-3 814	-1 580	-3 753	-1 875	-7 208	-11 023
Result Before Taxes (Балансовая прибыль/убыток)	134 427	135 991	103 564	373 982	148 776	122 124	100 447	371 346	745 329
Profit tax (Налог на прибыль) - 24%	-32 527	-33 166	-25 251	-90 944	-36 138	-30 332	-24 685	-91 155	-182 099
Non-deductible expenses (Расходы в счет чистой прибыли)							-10 000	-10 000	-10 000
Net Result (Итого результат)	101 901	102 825	78 313	283 039	112 638	91 792	75 762	270 191	553 230

Figure 4.7 – Example of Rossnor Marine’s Profit and Loss Account

Appendices


 Balance Sheet as of 30.06.2005 (in RUR)				
ASSETS (АКТИВ)		Note	30/06/2004	30/06/2005
Current Assets (Денежные средства, расчеты и прочие активы)				
Cash (Касса)				
RR bank account (Расчетный счет)			381 291	2 022 722
USD bank account (Валютный счет)			12 955	
Accounts receivable from customers * (Расчеты с дебиторами за отгруженную продукцию)		1	739 866	277 995
Advances paid to sub-suppliers * (Авансы выданные поставщикам и подрядчикам)		2	129 265	329 375
Advances to employees (Подотчетные лица)			305	
Tax overpaid to budget * (Задолженность бюджета по налогу)		3	324 215	2 085
VAT overpaid (Задолженность бюджета по НДС)			304 569	297 504
Short-term financial investments (краткосрочные финансовые вложения)				
Other receivables * (Прочие дебиторы)		4	394 318	241 355
Total (Итого)			2 286 783	3 171 036
Inventory (Запасы на складе)				
			1 800	2 000
Work in progress (Незавершенное производство)				
Expenses for future periods (Расходы будущих периодов)			45 111	66 766
Total current assets (Итого оборотные активы)			46 911	68 766
Long-Term Assets				
Unpaid share capital (Неоплаченный уставный капитал)				
Major assets (Основные средства)			2 275 190	2 347 074
Deferred tax (Отложенный налоговый актив)			454	1 328
Long-term financial investments (долгосрочные финансовые вложения)				
			32 400	32 400
Total long-term assets				
(Итого основные средства и прочие внеоборотные активы)			2 308 044	2 380 802
TOTAL ASSETS (ВСЕГО АКТИВ)			4 641 738	5 620 605
LIABILITIES (ПАССИВ)				
Current Liabilities (Текущие пассивы)				
Bank Overdraft - not available (Овердрафтный кредит - не предоставляется)				
Accrued salaries (Расчеты по оплате труда)			51 545	
Accrued social costs (Расчеты по социальному страхованию)				605
Accounts payable to sub-suppliers * (Расчеты с суб-подрядчиками)		5	2 332 760	2 290 231
Accrued taxes and other fees (Расчеты с бюджетом и по внебюджетным платежам)			38 437	153 421
Tax on profits (Налог на прибыль)				43 822
Short-term credit (Краткосрочные займы)				
Other accounts payable * (Расчеты с прочими кредиторами)		6	335 997	335 997
Advance payments from customers (Авансы, полученные от заказчиков)			4 275	9 000
Deferred tax obligation (Отложенное налоговое обязательство)			41 514	54 694
Provision for future liabilities (Резерв предстоящих расходов)				
Total current liabilities (Итого текущие пассивы)			2 804 528	2 895 171
Shareholders Equity (Источники собственных средств)				
Share capital (Уставный капитал)				
			312 300	312 300
Gain on exchange rate variation from the currency capital (Курсовая разница на уставный капитал в валюте)				
Revaluation of share capital (1 переоценка основных средств)			8 021	8 021
Result of past periods (Результат прошлых лет)			1 479 363	1 851 284
Result of current year (Результат текущего года)			37 506	553 230
Total Shareholders Equity				
(Итого источники собственных средств)			1 837 211	2 724 834
TOTAL LIABILITIES (ВСЕГО ПАССИВ)			4 641 738	5 620 605

Figure 4.8 – Example of Rossnor Marine’s Balance Sheet

Appendices

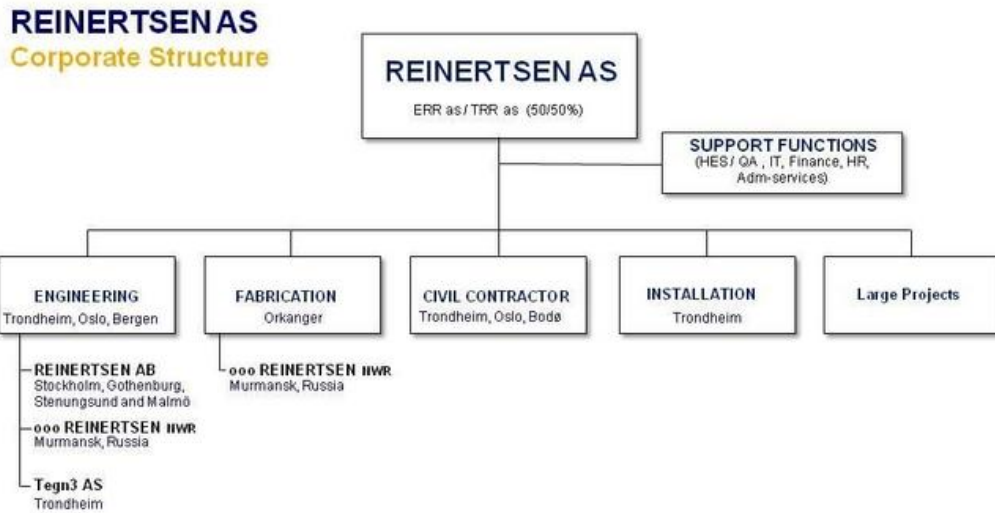


Figure A.4.9 – The corporate structure of Reinertsen AS (Reinertsen.no, 2011)

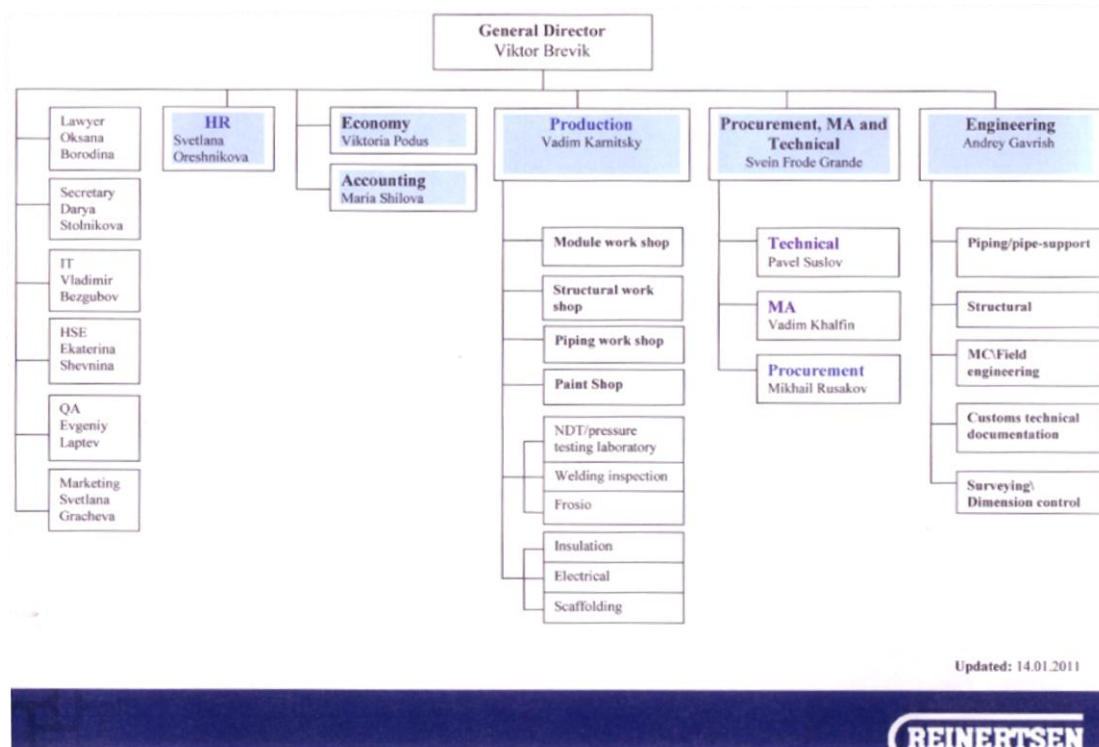


Figure A.4.10 – Organisational chart of Reinertsen NWR (source: Viktor Brevik)

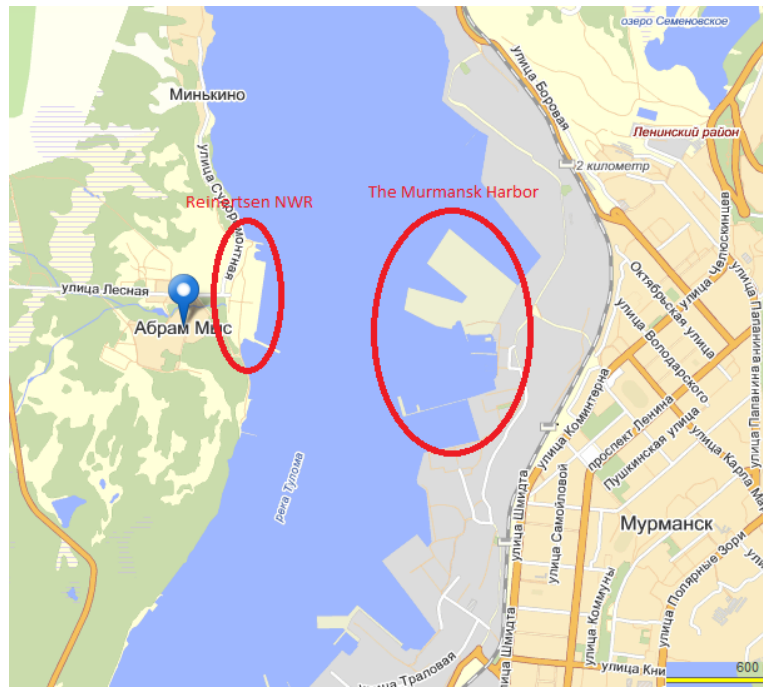


Figure A.4.11 – Reinertsen NWR facilities on the Abram-Mys and the Murmansk harbor

Interview guide

The new interview guide has been prepared for each and every interview, which has been taken during the work on the Master's Thesis. Here I'm presenting the sample of the questions from all of them. The interviews' duration varied from 1 hour to 2,5 hours, one interview was held via telephone, the other six were carried out personally. Four interviews were related to the case of Rossnor and three – to Reinertsen NWR.

General information

1. Tell me about yourself, your background as well as when did you begin to work for the company?
2. What positions have you been holding during these years? What were your major responsibilities?
3. What kind of products and/or services does (Norwegian) organization offer to the market? Who are the customers?
4. Tell me about the organizational and ownership structure of the (Norwegian) company? How the Russian subsidiary is integrated in this structure?
5. Name the reasons and causes, concerning the decision to start operations in Russia?
6. What were the initial plans behind the company's establishment in Russia? Were they put into practice?
7. Tell me how the establishment of the "Russian arm" was organized? Who was responsible for that from the Russian and Norwegian sides?
8. Tell me about the organizational and ownership structure of the Russian company? Was it changing over time? How and why? What were the results of those changes?
9. What is the current situation around the Russian subsidiary? Tell me about current performance, participation in projects, number of employees, training programs, etc.

Strategic management

10. Tell me about the strategy that company followed? Who was responsible for the strategy formulation of the Russian subsidiary? How the strategy was communicated to the Russian managers and employees? How was it controlled that the strategy was implemented in a proper way?
11. (*only for Rossnor*) Which role played the BM? How often did BM take place?
12. How the communication between the Norwegian and Russian partners was organized?

Management control and challenges, related to operation in Russia

13. How was the control of joint venture (subsidiary, in case of Reinertsen) designed and functioned? Explain the structure of control in the company? Who was responsible for the production, marketing, export, etc?
14. *(only for Rossnor)* Tell me about the production value chain within the company? What was added on each step?
15. How did you measure performance of the Russian company? What goals were set in front of the Russian management? How did you control that they act in the interest of the company' owners?
16. Draw a picture of the cost structure in Russia? What is cheaper and what is more expensive compared to production in Norway?
17. Tell me about the accounting practices in the Russian subsidiary? Did you use Norwegian principles of presenting accounting information? What are the difficulties, associated with the Russian accounting rules and regulations?
18. Name the challenges for operation in Russia? What did not function (that did in Norway, for instance) and why in your opinion?
19. How did management tried to overcome those difficulties? What has been done and what hasn't been done in order to improve the situation?
20. What, in your opinion, were the major differences between the Russian and Norwegian business cultures/people/approaches to work?
21. Was a language barrier serious obstacle for production in Russia? How did you manage to overcome it?
22. In what way production in Russia differs from the same production in Norway? Which model you tried to establish?
23. What are company's future plans, when it comes to operations in Russia? Are there any preconditions for moving towards Russian counterparts and suppliers and start of production for the internal Russian market?
24. *(only for Rossnor)* Name the critical points (events), which made Rapp Marine Group shut Rossnor and leave Russia, according to your point of view?