

## CROSS-CULTURAL COMMUNICATION - THE CHALLENGES FACED BY FINNISH ORGANISATIONS IN ESTONIA (Comunicarea interculturală – provocări pentru organizațiile finlandeze în Estonia)

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### Abstract

Relations between Estonia and Finland have been very strong traditionally. Their geographical proximity has facilitated the exchange of goods as well as ideas. Finland has a major stake in the Estonian economy – Finland is Estonia's number one trade partner. Finnish organizations make up about a quarter of all foreign direct investment in Estonia. The two countries also share very strong cultural ties. Both peoples are of Finno-Ugrian origin, they speak similar languages. Many Estonians speak the Finnish language fluently. Although Estonia is a Baltic state from a geographical point of view, Estonians consider themselves more Nordic than Baltic. Yet, despite these similarities, Finnish companies operating in Estonia face major communication challenges with their Estonian business units. Half a century of Soviet occupation has left its mark. On the one hand it had introduced the lasting legacy of Soviet management style. On the other hand, it has led to widespread prejudice against Estonian businesses, which even fifteen years of restructuring and the adoption of contemporary management practices could not change. Cooperation between Finnish organizations and their Estonian counterparts is cumbersome due to prejudices, taken-for-granted assumptions and miscommunication.

This paper analyses the communication problems by examining intra-organizational communication between Finnish parent companies and their Estonian subsidiaries. The findings of this paper are based on a survey conducted with Estonian and Finnish managerial and non-managerial staff. The paper will underline the importance of cultural sensitivity in business communication.

#### Key words:

Cross-cultural communication, Estonia, Finland, Baltic economies

### Rezumat

Relațiile dintre Estonia și Finlanda sunt puternic tradiționale. Apropierea lor geografică a facilitat schimbul de bunuri dar și de idei. Finlanda are o miza majoră în economia estoniană – Finlanda este primul partener comercial al Estoniei. Organizațiile finlandeze formează aproximativ un sfert din investitorii străini direcți din Estonia. Cele două țări au de asemenea legături culturale foarte puternice. Amândouă popoarele sunt de origine fino-ugrică, vorbesc limbi similare. Mulți estonieni vorbesc finlandeza fluent. Deși Estonia este un stat baltic din punct de vedere geografic, estonienii se consideră mai mult nordici decât baltici. Totuși, în ciuda acestor asemănări, companiile finlandeze ce operează în Estonia se confruntă cu provocări în comunicarea cu unitățile lor din Estonia. Jumătate de secol de ocupație sovietică și-a pus amprenta. Pe de o parte a fost introdusă moștenirea stilului de management sovietic. Pe de altă parte, a condus la prejudicii imense asupra afacerilor estoniene, care chiar și după 15 ani de restructurare și adoptarea practicilor de management contemporane, nu s-au putut schimba. Cooperarea dintre organizațiile finlandeze și partenerii lor estonieni este greoaie din cauza prejudecăților, presupunerilor luate drept sigure și lipsa comunicării.

Această lucrare analizează problemele de comunicare prin examinarea comunicării intra-organizaționale dintre companiile mamă finlandeze și filialele lor estoniene. Rezultatele acestei lucrări se bazează pe o cercetare condusă de personalul managerial și non-managerial din Estonia și Finlanda. Lucrarea subliniază importanța sensibilității culturale în comunicarea în afaceri.

#### Cuvinte cheie:

Comunicare interculturală, Estonia, Finlanda Economii baltice

## 1. Introduction

Gert Hofstede once stated: "Culture is more often a source of conflict than of synergy."

Cultural differences are a nuisance at best and often a disaster". Cultural differences between various countries can make the international operations of an organization very difficult. Lack of understanding of cultural differences has dire consequences in both personal and commercial interactions. Cultural differences look obvious when comparing countries of different geographic location, history, traditions, ethnic and religious background, or even political systems. However, even societies living in close proximity to one another can differ greatly. Cultural competence is a crucial managerial skill and must not be taken for granted. Intercultural miscommunication increases costs; financial in terms of decreased revenue and higher costs, and human, in terms of increased levels of stress and anxiety. Estonia and Finland are tied together with very strong economic, political, cultural, historic, and ethnic links. The two countries are separated by the Gulf of Finland, a short distance of 80 kilometers. By helicopter it takes a mere 18 minutes to fly from the city center of one country's capital to that of the other. The Estonian and Finnish peoples are closely related; their languages are very similar as both belong to the Finno-Ugric language group. Although Estonia is a Baltic state from a geographical point of view, Estonians consider themselves more Nordic, than Baltic. Yet, despite these striking similarities, there is a considerable gap between the two cultures. Many Finnish organizations that operate in Estonia get frustrated over communication problems due to cross-cultural misunderstandings.

The author's goal is to analyze the cultural differences and problems in subsidiaries of Finnish organizations located in Estonia between Estonian subordinates and Finnish managers. This qualitative study will focus on Hofstede's five key cultural dimensions: power distance, uncertainty avoidance, individuality versus collectivism, masculinity versus femininity, and long-term versus short-term orientation.

## 2. Culture defined

The word *culture* has multiple meanings. On the one hand, a cultured person is considered educated with a taste for literature and art. On the other hand, culture describes all characteristic elements of a society – distinct patterns of living and behavior. Cultural traits are acquired. People are mostly unaware of their cultural characteristics. Differences in culture cannot be readily explained by income level or social class (Dubois, 2000). Each culture has its own collective past. There are variations between and within cultures. Cultures differ from one another to various degrees in terms of traditions, rituals, symbols, languages, verbal and non-verbal communication. Cultures are not homogeneous; they may contain distinct subcultures based on differences in ethnicity, religion, geographical region, age, common experience, etc. (Hawkins, Best, Coney, 2001). Cultures can be distinguished along their distinct norms and values. Norms are rules for appropriate behavior in a culture. They prescribe how members of a certain society eat, drink, dress, speak, live, express their feelings – they influence virtually all behaviors.

Values are the beliefs commonly held by the members of a culture. These norms and values are dynamic; they are passed on from one generation to another

through oral and written transmission. Cultures evolve – some faster than others (Hawkins, Best, Coney, 2001). Values are not rational but subjective. They affect people’s perception of reality. Cultural values are hard to identify; they only become visible in the behavior of the members of a culture. These distinct patterns of values and behavior define the ‘national character’, through their impact on the individual (Hofstede, 2003). Differences in verbal communication (languages) are evident and easy to pinpoint. When traveling, linguistic differences become obvious even between countries speaking the same language. Pronunciation, spelling, and even the meaning of words are different in the UK, USA or Australia. Language is an integral part of culture and plays a crucial role in cross-cultural communication. Learning a second, third, or fourth language will enrich one’s point of view as it greatly facilitates cultural adaptation and understanding of the nuances and subtleties of a culture. It also helps bridging the gap between various cultures as native speakers most of the time appreciate it when foreigners make the effort to learn the local language. Linguistic barriers often lead to problems in translations. The use of translators

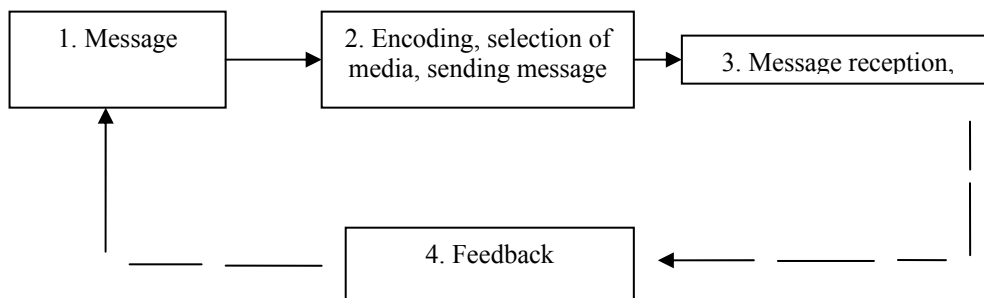
increases the danger of misinterpretation. Translators must be very familiar with not only the languages but also the context in which the communication takes place in order to minimize loss or alteration of meaning (Hofstede, 2003).

The major source of cross-cultural misunderstandings is nonverbal communication. Gestures, day-to-day expressions, actions, symbols, and objects are assigned different meanings across cultures. In order to become intimate with these subtleties, a person has to be very familiar with that culture; one has to ‘live the culture’. Ethics, etiquette, symbols, time, friendship, and space are assigned arbitrary but very specific meanings in the various cultures. The same object, behavior or gesture will be interpreted very differently in various societies.

**3. The communication process**

The consequence of miscommunication is a disparity between the intended and received meaning of a message. Figure 1 shows the communication process and the potential for loss of meaning and misinterpretation.

**Error!**



**Figure no. 1 - The Communication Process**

First, the sender composes the message in his or her head. The composition of the message depends on internal, external and situational characteristics of the sender. Internal characteristics include the person's subjective perception and his or her biological characteristics, such as attention span, and memory. A person's cultural and sub-cultural background, demographic and psychographic features, and social standing will all influence his or her choice of words and symbols, as well as his or her ranking of priorities. In order to transmit the message, it must be encoded into a written or verbal form of communication. The extent to which the meaning of the original message is altered at this stage depends on the sender's writing or speaking skills. This is affected by individual as well as cultural factors. In low-context cultures everything is spelled out explicitly. High-context cultures put more emphasis on non-verbal communication.

When receiving the message, the recipient must decode and interpret the message, both of which are strongly influenced by individual, cultural, and situational characteristics. If needed, the recipient provides feedback to the sender. Meaning is lost or altered at stages 2, 3, and 4. The greater the differences between the communicators' cultures the greater the potential for miscommunication.

#### **4. Comparison of Estonian and Finish cultures along Hofstede's five dimensions**

Estonia and Finland have a lot in common. Aside from their linguistic similarities, their countries' histories are quite similar. Neither of them enjoyed independence until the Soviet Union withdrew in 1920. For centuries they had been subjected to Swedish or Russian

occupation. Both Estonia and Finland consider themselves Nordic; they have a cold climate with long and harsh winters; they are the two most sparsely populated countries in Europe. The geographical proximity and cultural similarities have made Estonia an attractive target for Finnish organizations. Following the breakup of the Soviet Union, many of them rushed to take advantage of Estonia's resources, such as its inexpensive but well qualified labour force, and its connections with the Russian market, which has made Estonia a major transit cargo hub between Russia and the west. Estonia's accession to the European Union (EU) in 2004 has greatly increased the country's potential to attract foreign investment. In 2004, total trade between the two countries totaled 2.6 billion EUR. As of 2004, Finland represented 45.6% of total direct investments, second only to Sweden. 1,975 enterprises have some sort of Finnish ownership of which 899 are completely owned by Finnish entrepreneurs (Ministry of Foreign Affairs of Estonia). The main targets of Finnish investments have been commercial trade, manufacturing, transport, logistics, construction and real estate sectors and financial intermediation. Tourism represents a significant part of the Estonian economy. In 2004, 1.37 million tourists visited Estonia, which is the equivalent of the nation's population. 62 percent of all tourists came from Finland (Statistical Office of Estonia). The only significant historical divergence occurred in 1940 when the Soviet Union annexed Estonia. During fifty years of occupation, the formerly mono-ethnic country became a target for russification. Currently, about one third of Estonia's population is of Russian origin. The Soviet occupation brought with it the so-called Soviet-style management that can be described as

based on fear, with large power distance, high levels of uncertainty avoidance, high masculinity index, and collectivism. The socialist era left a clear mark on Estonian business practices, the degree of which differs greatly across organizations. Estonian organizations can be divided into two distinct groups: those that enjoy inflows of foreign investment, and purely domestic enterprises. The former are at a great advantage. In addition to financial investments, they have benefited from transfers of technology, and know-how, including training in best business practices. These organizations are export driven with high rates of productivity. Purely domestic enterprises suffer from low productivity rates, outdated technology, and inadequate access to resources.

Organizations in Estonia can also be categorized according to the ethnicity of their employees. Interestingly, most companies do not mix – they employ either Estonians or Russians. This paper focuses on cross-cultural communication in ethnic Estonian subsidiaries of Finnish organizations. The findings of this paper are based on observations, surveys, and unstructured interviews with Estonian employees and Finnish managerial staff. The research focused on white-collar organizations. Both managers and subordinates were university graduates with business degrees. They were between the ages of 22 – 40. The ratio of men and women in the study was fifty-fifty percent. Due to reasons of confidentiality, the names of organizations taking part in the research cannot be disclosed. Both Estonians and Finns can be described as ethnocentric. They are very proud of their ethnic origins. Estonian nationalism has been strengthened by years of Soviet occupation and the russification that came with it. The Estonian and Finnish

languages are closely related with similar grammar and vocabulary. There are no articles, gender or future tense in either language. An example of similarities in communication patterns is that interruptions are considered rude in both countries. These geographical, linguistic, and cultural similarities are just the visible tip of the iceberg. There are many differences between Estonians and Finns that only become apparent under closer examination. All participants of the survey agreed that the Estonian and Finnish ways of conducting business are different. Power distance focuses on the degree of inequality between people in a culture. It is related to the distribution of power, prestige, and wealth. Inequality in an organization is unavoidable; it is reflected in its hierarchy and structure. In the organizational context, power distance refers to the measure of interpersonal power or influence of a superior over his or her subordinate (Hofstede, 2003).

In societies with high power distance authority is not based on rational arguments but on tradition. Privileges and status symbols are considered normal for superiors. Organizations are very hierarchical with tall structures. Finland is among the lowest power distance cultures in the world. Promotion and rewards are based on merit, not on status. Managers are expected and do exercise participative management style. Withholding information is frowned upon.

Although still at the lower end of the continuum, power distance in Estonia is higher than in Finland. In general, Estonian employees find their personal life more satisfying than their career. They believe that employees and owners of companies should also participate in the selection of managers. Most of them find their work as satisfying as they did at the beginning of their career.

However, all of the Estonian respondents feel that they are very much underpaid. In fact, Estonian employees earn considerably less than their Finnish counterparts, even when adjusted for purchasing power levels. They get paid much less despite the very similar productivity levels observed during this research. Estonians do not feel that their pay is related to performance. They also resent what they call the 'condescending attitude' of Finnish managers.

The individualism versus collectivism index examines the relationship between a person and the collectivity in a society. The relatively low power distance in Finland and

Estonia are complemented by their large degree of individualism. Their origins can be explained by geographical reasons. In these harsh climates, people had to rely on themselves for survival. As these countries have been very sparsely populated, the opportunities for socializations have been very limited. These two societies are probably the highest-context cultures in Europe. Neither Finns, nor Estonians think aloud. They tend to get to the business at hand; small talk according to them is not necessary to the point of being blunt. Both cultures believe that the purpose of talk is passing on information. According to the findings of the survey, Estonians are more reserved and tend to talk even less than Finns. Although some Estonians seem to appreciate the friendlier Finnish attitude, many believe that Finns tend to 'beat around the bush'. This difference is also reflected in the lower number of meetings held by Estonians. A common criticism of Estonians by their Finnish managers is their difficulty to express themselves verbally. Both Finns and Estonians are very technology oriented. Internet usage is among the highest in the world. Estonia was the first country to introduce

voting via Internet. The most preferred media for communication is email. Telephone conversations and personal meetings are only held when absolutely necessary.

Choosing a career is one's personal choice. Employee – employer relationships are based considered a business transaction and are treated in a professional manner.

Expression of emotions is very rare. One can occasionally see smiles but showing anger or sadness is frowned upon. Estonians seem more collectivist than Finns. There is a very strong distinction between one's in-group and out-group. Estonians tend not to accept foreigners into their in-groups. Although many Estonians speak English or Finnish fluently, it is not uncommon for them to carry on discussions in Estonian among themselves in the presence of foreigners. A common complaint of Finnish managers is the reluctance of Estonians to trust them. Very few, if any, managers from Finland working in Estonia speak Estonian, despite the fact that some of them spend years in the country. More Estonians speak English than Finnish. As conversations are carried out in English, the 'lingua franca', which is a not the native language of either parties, many of the nuances, subtleties, and idiosyncrasies are missed.

Uncertainty avoidance refers to the level of tolerance for uncertainty and ambiguity. It must not be confused with risk avoidance. Risk can be quantified; it can be expressed in a probability of occurrence. Organizations attempt to reduce uncertainty by using rules, meetings, filing reports, and using technology. Technology and standardization create more predictability. Bureaucracy and rules are invented to reduce the unpredictability of the members and stakeholders of the organization (Hofstede, 2003). Rules are

designed to help the organization achieve its goals. However, organizations with very rigid rules and large bureaucracies stifle innovation, initiative, creativity, and individual judgment.

Finland is on the middle on the uncertainty avoidance continuum. Overall, according to the survey results Estonians have higher uncertainty avoidance than Finns. Estonians tend to have lower subjective well-being, which is inversely related to uncertainty avoidance. They highly value nature, and the protection of the environment. Estonian employees like the reliability and rule abiding character of their Finnish management. They have a strong conviction that organizational rules should not be broken even if it is in the best interest of the company. They prefer group decisions to individual ones. They show a consensus in their distrust of people. They tend to dislike working for a foreigner as a manager. Estonians complain about their Finnish managers' ignorance and disregard for the local conditions. According to them, Finnish managers do not seem to be in touch with reality and the day-today operations of their Estonian subsidiaries. At the same time their Finnish managers feel that their Estonian employees are overly pessimistic about the future, and unnecessarily look for ulterior motives behind most decisions. Another common complaint of Finnish managers is the very strong nationalism of Estonians. They consider Estonian patriotism exaggerated to the point of xenophobia and believe that it prevents them from exploiting valuable opportunities in the international marketplace. On the other hand, there are signs of low uncertainty avoidance as well. They have the tendency to release stress in passive ways, such as walking in nature, or sitting in a sauna. Estonians do not value company loyalty; the vast majority of

respondents want to leave their current employer within the next two years. They are fairly open to new ideas and change. This openness has shown itself in the willingness of Estonians to take drastic measures during the years of transition. By introducing radical reforms, the country has completed its economic and political transformation from a centrally planned Soviet republic to a vigorous, democratic free-market economy.

The masculinity versus femininity dimension looks at the roles genders are expected to play in a society. Femininity is a different concept from feminism. Femininity is a cultural characteristic; feminism is an ideology. Whereas men are associated with ego-related goals, women in general tend to emphasize social goals. A high score on the masculinity index presumes a high degree of gender differentiation with male dominance. In these societies men are supposed to be 'bread-winners' and women 'cake-winners'. In a masculine society, the gender roles are clearly distinct. Men should focus on material success and career advancement, whereas women's concern should be the quality of life. The separate gender roles are reflected in the way children are brought up (Hofstede, 2003). Finland, not unlike its Nordic neighbors, has a very feminine culture. Although

Estonians consider themselves Nordic; they are closer to the masculine end of the masculine feminine continuum. A feminine trait of Estonian culture is their preference of group decisions. Decisions are made in groups and they are made fast, a feature that Finnish managers seem to appreciate.

Only half of all respondents believe that women in Estonia have equal opportunities with men. The majority enjoys competition with others and almost all of them think that it is

important to perform better than others on a task. Estonians have skeptical views of others. The respondents would unanimously prefer a higher salary for the same number of hours worked, as opposed to working fewer hours for the same salary, if their economic situation improved substantially. Men expressed their career expectations very clearly: they want to become managers.

The managerial position itself seems more important to them than their choice of industry or business. Estonia's budget expenditures, its tax regime, and the income distribution in the economy all indicate a masculine society. Estonian economic policies are very business friendly; the main objective of the successive governments has been economic growth. The country boasts one of the highest growth rates in the EU; in 2004 its real GDP growth rate was 7.8 percent. Since 1999, Estonia's GDP growth rates have been consistently above 6.5 percent. (Eesti Pank). In 2004, Estonia ranked number 4 on the Index of Economic Freedom Ranking (The Heritage Foundation) behind Hong Kong, Singapore and Luxemburg. It had the highest ranking – 28 – in Central and Eastern Europe on the World Competitiveness list. It has a proportional tax rate of 24 percent that will decrease to 20 percent over the next few years. Businesses do not need to pay corporate taxes on reinvested profit. At the same time, the economic and social policies of the past one and a half decade have led to a significant economic and social stratification of society, and the emergence of increasing income inequalities. Estonia has the highest levels of income inequality in the EU with a Gini coefficient of 0.38 (World Bank). The at-risk-poverty-rate after social transfers is 18 – in other words, 18 percent of the population has disposable income less than 60 percent of the

national median income (Eurostat). The attitude of the Estonian respondents to poverty is a fair reflection of these facts. They tend to look upon poverty as an inevitable part of economic development. Some also believe that lack of effort and willpower are the reasons for the existence of poverty. Long-term orientation is related to the teachings of Confucius. High long-term orientation represents respect for traditions, long-term commitment, and postponed gratification. The values are perseverance, hard work, thriftiness and a strong work ethic. Families in these societies keep to themselves (Hofstede, 2003). Finland is on the middle of the scale between long-term and short-term orientation.

Based on the survey results, Estonians are more long-term oriented. Although they value leisure time, they attach very high importance to hard work. Buying real estate is a common life goal. Many believe that their most important life experiences have not happened yet. They tend to think in terms of the shade of gray, according to them, there can never be absolutely clear guidelines about what is good and what is evil; a lot depends on the situation. Overall, the cultural differences do not seem great between Estonia and Finland. When examining the attitudes and interaction of Finnish managers and their Estonian employees in Finnish subsidiaries located in Estonia, the two countries seemed quite similar on Hofstede's five cultural dimensions. However, even these small differences are enough to create communication problems and seriously complicate intra-organisational operations.

## 5. Conclusion

Successfully competing in today's fiercely competitive marketplace is hard



enough within a national market. Business becomes much more complicated when crossing national borders. Access to markets, inexpensive resources, and the potential to exploit economies of scale are strong incentives for organizations to enter the international arena. However, as soon as an enterprise starts operating in another country, it will face languages, mindsets, customs, traditions, and business practices different from its own. Symbols, rituals, concepts, and gestures

will take on different meanings. Nobody is born with intercultural skills. People engaged in international operations need to be prepared and trained for the pitfalls of cross-cultural communication. Cross-cultural misunderstandings result in costly mistakes. They increase costs, decrease revenue; overall they have an adverse effect on profits. Acculturation, cultural sensitivity significantly improves not only inter-organisational but also intraorganisational relations and effectiveness.

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