Is the Bigger the Better (From Legitimacy Point of View)?

Veronica Gustavsson (STUDENT)
Jönköping International Business School.
Jönköping University,
P.O.Box 1026 SE-551 11
Jönköping
Sweden
Tel.office: +46 36 156146
Fax: +46 36 161069
E-mail: Veronica.Gustavsson@jibs.hj.se

Is the Bigger the Better (From Legitimacy Point of View)?

Abstract

This paper considers the concept of legitimacy as a key to success or failure for a foreign company operating in Russia. The paper argues that in order to pursue the strategy of gaining, maintaining or repairing legitimacy both ”strategic” and ”institutional” approaches should be combined. The theoretical assumptions are illustrated by examples of foreign companies’ activities in Russia. Further, the paper argues that SMEs have certain advantages as far as success on the Russian market is concerned.

1. Two Flops and One Success

Since the very start of the economic reforms in Russia/Soviet Union foreign investors tried to enter that enormous market. They are now recommended in their search for the most successful strategies, to shift from pursuing a 100 per cent ownership of Russian companies to establishing strategic alliances and joint ventures. (M.Write et al., 1998).

Statistics can provide the number of cases of failure or success and, therefore, help to state the fact whether a certain strategy is worth implementing or not. It is, however, not very helpful in understanding reasons that make the strategy successful. On the contrary, a case study, or even a vignette, gives the opportunity to follow the course of events and this way may evoke deeper understanding of reasons and consequences. That is why I would like to describe two failure stories and one tale of success - of foreign enterprises operating in Russia. Conclusions derived will be supported by both statistical data and theoretical framework coupled with a brief outline of a research, which is being planned in this sphere.

1.1 The Earlier Days - Nabisco

Nabisco, a well-known American food production company, tried to enter the Soviet market already in 1989. The idea was to build and operate a brand-new plant not far from Moscow. However, due to the high construction costs and problems and delays caused by the notoriously inefficient Soviet bureaucracy, the company abandoned the project and developed a new market entrance strategy, i.e. to acquire a 100 per cent ownership (or a majority share, at least) of a Soviet enterprise. Nabisco management believed that they could pursue their long-term strategic goals only by means of full management control.

Privatisation of the state enterprises being held in Russia in 1992 assisted Nabisco in its plans. By the end of 1992 the company management started negotiating the likely acquisition of a newly privatised Russian company which we can call ”Northwest Foods”, with its management. The deal seemed a ”win-win” situation: ”Northwest Foods” owned a brand-new food-processing plant making products similar to Nabisco’s own (although in much smaller range and worse quality).

The plant had high capacity and its geographical location was very favourable for the development of a distribution network. Nabisco, in its turn, guaranteed ”Northwest Foods” massive capital investments and improvement of quality in both production, management and logistics. Although the Russian company was to carry out deep restructuring, Nabisco was ready to guarantee one year of employment to the potentially redundant workforce. ”Northwest Foods” few top managers would keep their positions till retirement, that was soon due; the middle management and key specialists were supposed to be trained at Nabisco US operations. (For more information about Nabisco’s intentions see Appendix A).

Acting in strict accordance with both written and unwritten norms of business conduct in the USA, Nabisco executives were open and honest to their Russian counterparts, although rather tough. Unfortunately, the ”Northwest Foods” management played double game. The company’s cash-flow had started being insufficient and, reluctant to cede the management control over the company to the Americans, the Russian top managers started negotiations with a Moscow based voucher investment fund (VIF) behind Nabisco’s back. The VIF promised significant investments in ”Northwest Foods” for the revenues in return, but they had no intention to run the company, so that the present management would retain operation control.

Briefed by the ”Northwest Foods” management, the VIF succeeded to take over the company before Nabisco that had to comply with the constraints of foreign investments regulations, could make its move. Later, following the changes among the top management of the parent company, Nabisco totally abandoned its plans to operate in Russia and decided to concentrate on other markets.

The description of the ”Northwest Foods” privatisation campaign and the company take-over is found in Appendix B.

1.2 Three Years Later - AssiDomän

Three years later, in June 1996, AssiDomän, a Swedish concern operating in timber and pulp industry, tried to start production on the Russian market. The company had gradually acquired, through its subsidiary Stratton Paper Company, the majority share (57 per cent) in a Russian paper-sack producing mill Segezhabumprom. Among other stockholders were Republic of Karelia (20 per cent), Upack, a state-owned Russian paper sacks distributor (10 per cent), and Austrian company Frantschach (6 per cent). (Brakonier, 1997).

Before the acquisition Segezhabumprom had gone through the hard times. The company had to pay heavy debts in federal taxes, pension fund, and was months behind in paying salaries. Most of the difficulties were caused by the inefficient structure and incompetent management, unable to function in a market-based economy. Therefore, the first thing done by the Swedes, as soon as they acquired the management control was to restructure the management and appoint a Swedish General Manager, as well as to bring personnel from Sweden to fill in a few other key vacancies. After substantial loan injections of working capital from the Swedish side Segezhabumprom was able to pay the delayed salaries and resume production.

However, the company had to solve environmental and other permits related to the operations as well as restructure the factory's substantial tax arrears that it had inherited. But, since the local authorities proved uncooperative, the Swedish management had to stop production in March 1997.

As a result of high-level talks between representatives of AssiDomän and Segezhabumprom, Viktor Stepanov, Karelian President and Anatoly Chubais, the First Deputy Prime Minister of the Russian Federation, the Swedes were promised extensive co-operation from the local authorities. Still, the company activities could be resumed only in July 1997.

The events taking place in November - December 1997 are, probably, best described by direct quotation from AssiDomän's press release dated February 12, 1998:

> ”November 1997 - The Public Prosecutor of the Republic of Karelia initiates an investigation into AssiDomän's ownership and management of the mill.
>
> December 1997- The Moscow Arbitration Court declares the Anti-Monopoly Committee's original consent to the acquisition of the Segezhabumprom shares by Stratton Paper Company to be illegal. During President Boris Yeltsin's visit to Stockholm, Segezha is offered a ”state guarantee” in order to ensure the long-term future of the mill. Boris Nemtsov, the new First Deputy Prime Minister of the Federation, is given responsibility for the ongoing discussions.
>
> ...
>
> AssiDomän's Board of Directors decides to cease supplying working capital to Segezha, following the increased difficulties to attract external financing or contributions from the other shareholders. Since the mill was restarted (in July 1997 - the author), AssiDomän has been forced to supply working capital monthly in the form of guarantees for loans to Segezha.” (AssiDomän Press Information, 1998)

In January 1998 Segezha's management had to stop production at the mill again. The reason was lack of working capital and continuing arrest of the mill's bank accounts by the local tax authorities caused by the absence of a tax restructuring deal.

So, in February 1998, after more than a year of unsuccessful negotiations about the tax and ownership issues, AssiDomän announced the withdrawal of management and the write-down of its investment in the mill. As a result, the Swedish concern suffered losses of SEK 549 mln.

1.3 The Bitter Figures or Unwelcome Statistical Support

The reader may be tempted to regard these two cases as exceptions. Unfortunately, statistics starts proving otherwise. A survey conducted among the managers from more than 300 privatised enterprises in six major industrial regions of Russia brings to light the following facts (M.Write et. al., 1998):

- Senior managers of the privatised enterprises regard foreign investors solely as a source of fresh capital and advanced technologies.

- Both managers and employees of the privatised enterprises are unwilling to accept outsiders (especially foreigners) as major stockholders; the managers are reluctant to cede operation control and the employees are afraid of loosing their jobs due to potential restructuring.

- Foreign investors are generally mistrusted; the misperceptions about their objectives include e.g. fears that the foreigners are just interested in acquiring capacity in order to close it and supply products from their own domestic plants.

- The insiders who own and control Russian privatised companies are in most cases unable to provide both strategy and capital necessary for deep restructuring. Even if outsiders are accepted as stockholders, the red directors [1] would successfully sabotage the reforms if restructuring and potential removal of redundant management is implied.

As far as potentially successful co-operation strategies are concerned, the article advocates heavily against acquisitions which, as the authors believe, ”may be extremely difficult to manage” (Ibid.). Further, the authors argue that ”where the whole-firm acquisitions take place, it may be necessary for the new owners to remove the existing senior management immediately... However, such managers may have extensive networks of contacts among suppliers and customers of the enterprise, perhaps even owning some of these trading partners either directly or through their families. Where outside investors do have long-term plan for the development of an acquired business, they need to signal their intentions and develop levels of trust with local managers...” (Ibid. p.83)

The authors suggest establishing strategic alliances and joint ventures as a more viable form of co-operation because ”lower levels of financial commitment and shared control may align the interests of incumbents and outsiders.” (Ibid. p.84) Still, the authors highlight the importance of establishing trust relationships, and this way integrating into the network of personal contacts which exists among Russian senior managers. During Soviet time this network provided the possibility of access to scarce resources; however, it is still equally important in the new environment because ”Russian managers, unlike their US counterparts, are unfamiliar with a contract-based approach to business”. (Ibid. p.84)

Although the authors discuss numerous potential constraints of privatisation /acquisition /restructuring, only one of them, i.e. the financial constraint, may be regarded as of mainly economic nature. All the others, such as employees’ influence, relationships with outside shareholders, need for deep restructuring and constraint for managerial actions are mostly institutional. Moreover, the two suggested strategies - building of trust and becoming involved in the contact network have not so much to do with economics at all. Instead, these two strategies are highlighting the necessity of gaining legitimacy.

However, prior to introducing the theoretical support for this conclusion, I would like to present one more case of activities in Russia - this time successful.

1.4 Norrfrys: Picking Up Berries - A Successful Activity

A short, refreshing tale of success will, probably, offset the dull impression of previous stories. Norrfrys, a relatively small Swedish enterprise (approx.340 employees) processing wild berries, wild animals' meat and fish, has been successfully performing in the Soviet Union/ Russia since the 70s and runs the following Russian operations at present:

- A 100 per cent owned subsidiary in Murmansk buying berries, fish, fur, wild meat and doing some trade.

- A rain-deer slaughter in Lovozero, a village south of Murmansk

- A 100 per cent owned subsidiary in Petrozavodsk, which serves as a centre of Norrfrys's berry buying in Russia, and where a berry-processing plant is installed.

- Since 1995 - a subsidiary in Pskov responsible for buying blueberry, cowberry and cranberry. **(**Mella, 1997**)**

The author of the referred paper has been successfully working himself as a manager of Pskov subsidiary in summer 1996. During that time his responsibilities included supervision over buying, freezing and delivering to Sweden significant quantity of wild berries. Naturally, to have the job done, he had to deal with local authorities, banks, Russian suppliers of berries and subsidiary's employees. Due to the nature of this task quite large sums in cash were to be handled as well; however, in spite of the due amount of difficulties, the job was completed successfully.

Mella's conclusions are of special interest in this case. He was briefed, before leaving for Pskov, by managers at Norrfrys who had already acquired substantial experience of work in Russia. Their judgement plus Mella's own ideas can be summarised as follows:

- Good relationships with a *reliable bank* (Mella's Italics, my translation) which can speed up transaction time and ensure that money would come at all.

- *Competent local employees*. The word ”competent” here means much more than just high professional qualifications; it implies that these people should also possess the widespread network of personal contacts, and make it available for the benefit of the employer. In Mella's case such an employee was the subsidiary's accountant. Due to her good relationships with local tax authorities the enterprise was provided with valuable advice, necessary to avoid fines in complicated and obscure Russian taxation system.

- Enormous differences in mentality and generally appropriate way of doing business (legitimacy) make it impossible to run a Russian subsidiary ”from abroad” or totally rely on Russian management. There should be at least one foreigner in the local management team (in this case a Swede or a Finn).

- The role of this person is a key one, and he/she should meet tough requirements. First of all, he or she should have a good understanding of ”people, culture, mentality and market” (Ibid. p.37,

> My translation). Without such a person, as the author keeps pointing out, it doesn't matter how many highly qualified specialists are present on site - the activities are doomed. On the other hand, this person should represent everybody's interests, not only the ones of the foreign owner/stockholder. As Mella puts it, "if the Russians don't feel that they earn money and belong to the organisation, then the conflicts will come up inevitably - sooner or later" (Ibid. p.37, My translation).

This short example demonstrates, once again, the importance of non-economic, institutional matters, or, to be precise, the importance of gaining and maintaining legitimacy. Purely economic difficulties were successfully overcome and the enterprise was able to function legitimately, in the best interests of its stakeholders and the local community as a whole.

2. This Mysterious Word "Legitimacy"

Probably, one of the ways to define legitimacy is to call it the main source of discord between two schools in organisation theory: Population Ecology/Resource Dependence and Institutional Theory. Population Ecology/Resource Dependence researches, or "strategists", regard legitimacy as "an operational resource (Suchman, 1988) that organisations extract - often competitively- from their cultural environment and that they employ in pursuit of their goals (Ashforth & Gibbs, 1990; Dowling & Pfeffer, 1975)". (Suchman, 1995:576)

The institutionalists possess quite a different point of view on legitimacy. According to them, "external institutions construct and interpenetrate the organisation in every respect. Cultural definitions determine how the organisation is built, how it is run, and, simultaneously, how it is understood and evaluated" (Ibid. p.576).

Therefore, it is quite possible to say that "strategists" consider legitimacy from a point of view of a manager. Even though they admit that legitimacy is a socially constructed phenomenon and, as such, is heavily culturally bounded, they give considerable freedom to a manager in his or her attempts to build legitimacy by manipulating cultural symbols and creating appropriate myths and rituals.

This assumption being certainly true to some extent, can at the same time become one of the major pitfalls of the strategic approach. One may reasonably doubt that managers can distance themselves from their own cultural background enough to gain objectivity and aloofness necessary to manipulate cultural phenomena. This pitfall is even more distinct when managers have to act on an unknown ground, on a foreign market, within an alien cultural surrounding. In such cases managers can be objective enough from the cultural point of view, but at the same time being non-native, they cannot fully perceive the subtlety of a foreign cultural system. The delicate processes of institutionalising and taking-for-grantedness may avoid their attention.

This brings us to the institutional perspective with its focus on "institutionalised cultural frameworks." (Ibid. p.577) It is possible to say that "institutionalists" adopt the point of view of the whole society in regard of the organisation, when the analysis is concentrated not on the individual organisations but on their clusters, or fields, or rather on organisation as an institution. It is unnecessary to explain that such point of view, though providing exciting research opportunities, can be considered less fruitful from a position of a practitioner.

Nevertheless, I believe that an institutional approach, which regards legitimacy and institutionalisation as virtual synonyms (Ibid.), can provide managers with excellent insights into cultural phenomena, and therefore help them to create and evaluate successful strategies as well. This becomes increasingly important if a manager is to deal with an alien culture, or if a culture itself is undergoing a radical change (which is the case in Russia nowadays).

Bearing in mind the advantages and pitfalls of both schools, it is probably the time to give a definition of legitimacy which can be derived from both approaches:

Legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system to norms, values, beliefs, and definitions. (Suchman, 1995:574)

Following this definition and according to the existing literature Suchman distinguishes three types of legitimacy: **pragmatic** legitimacy, assuming that an organisation can and should act for the benefit of the audiences, **moral** legitimacy that makes an organisation follow socially acceptable norms and routines, and **cognitive** legitimacy, when an organisation and its activities are supposed to be understandable for the society (Ibid.). Using Suchman's article as a starting point I would like to give a broader description of every type of legitimacy and analyse its relative importance for an actor on a foreign market as well as a possibility to manage it.

2.1 Pragmatic Legitimacy

Pragmatic legitimacy, or the assumption that an organisation's existence and its actions can serve self-interests of its audiences or constituents, is not a homogeneous phenomenon. According to the existing literature there are at least three types of pragmatic legitimacy, depending on the strength of the exchange-power relations and the extend to which the type of legitimacy is socially constructed.

Exchange legitimacy ensures support for an organisational policy based on that policy's expected value to a particular set of constituents (Dowling & Pfeffer, 1975 from Suchman, 1995). This kind of legitimacy stands closest to simple power-dependence relations, (Pfeffer & Salancik, 1978) and is, probably, the easiest to gain in a foreign cultural environment. Nevertheless, even this type of legitimacy could be difficult to obtain: on one hand, a manager must be aware of the power-dependence relations particular to the culture, and on the other hand, both the relations and the culturally appropriate way to express them might be incompatible with the manager's own cultural paradigm.

Influence legitimacy, although more culturally bounded, stands close to the previous type. ”In this case, constituents support the organisation not necessarily because they believe that it provides specific favourable exchanges, but rather because they see it as being responsive to their larger interests.” (Suchman, 1995). To demonstrate such responsiveness is quite often easier and sometimes even more important than to produce actual results (Meyer & Rowan, 1991). Besides, this type of legitimacy seems quite easy for a foreigner to obtain, because what an organisation actually has to do is to co-opt its constituencies to its decision-making structures and this way to demonstrate its commitment to the constituencies' well-being. Potential problems may arise in case when the constituencies' standards of behaviour or performance are in strong discord with the organisation's ones.

Dispositional legitimacy, the last type of pragmatic legitimacy, stems from the fact that audiences often personify organisations, regarding them as individuals, malevolent or benevolent, or possessing good or bad reputation. It is worth mentioning, I believe, that this type of behaviour is rather common in Russia. The cultural component brings inevitable difficulties to image making if an organisation is going to create and exploit its personified image on a foreign market. An international organisation, possessing a worldwide image, can either enjoy its personified reputation or suffer, if a society's symbolic and cultural system imply negative connotations to the image.

2.2 Moral Legitimacy

Moral legitimacy reflects a positive normative evaluation of the organisation and its activities (Aldrich & Fiol, 1994; Parsons, 1960, from Suchman, 1995). Unlike the case of pragmatic legitimacy, an organisation's audiences, judging its activities, do not expect any immediate benefits from the organisation, but are concerned that the organisation's activities respond to the norms of a socially constructed value system, if they are "the right thing to do".

According to Suchman, moral legitimacy may take four forms: evaluations of outputs and consequences - consequential legitimacy, evaluations of techniques and procedures - procedural legitimacy, evaluation of categories and structures - structural legitimacy, and the last but not least which Suchman believes to be a rare one, but which is nevertheless quite common for Russian culture, is evaluations of leaders and representatives. (Suchman, 1995)

I must say that all forms of moral legitimacy, due to their subtlety and cultural embeddedness seem rather difficult to perceive, and therefore, to manage. I would prefer to leave the detailed description and analysis of possible strategies to my full-format research and for the time being limit myself by giving short definitions and brief comments, where necessary.

Consequential legitimacy - Modern rational mythology prescribe that organisations should be evaluated according to their accomplishments. Probably, the first pitfall in gaining this type of legitimacy in a foreign environment lies in this assumption. One can easily guess that a foreign culture may employ quite different mythology, which in its turn produces a different framework for evaluation. Besides, some organisations may produce outputs that are quite difficult to measure - "either because of ambiguities in their definitions or because of extreme "lumpiness" in their distribution over time". (Ibid., p.580) Thus, it is possible to say that consequential legitimacy may be one of the most difficult forms to gain in a foreign culture.

Procedural legitimacy may be understood as "When in Rome, do like Romans do" (conventional wisdom), or as "embracing socially accepted techniques and procedures" (Scott, 1977, from Suchman, 1995:580). This way is very convenient when performance outcomes are hard to measure, or when "the proper means and procedures are given a positive moral value" (Berger, Berger

& Kellner, 1973:53), e.g. in case of professional activities. The potential differences of cultural norms and standards, when a manager cannot appreciate practices, generally accepted in the foreign culture due to severe discrepancies with his/her own moral patterns, may stand as a pitfall even in this case.

Structural legitimacy, which is labelled categorical by Zucker (Zucker, 1986) and structural by Scott (Scott, 1977) ensures that organisations adopt institutionally prescribed structures and this way guarantee that they ”are acting on collectively valued purposes in a proper and adequate manner”. (Meyer & Rowan, 1991:50). I would like to add that in a heavily institutionalised environment, e.g. the former Soviet system, this type of legitimacy, as well as procedural legitimacy was the one demanded by the social system and therefore crucial for the organisation’s survival.

Personal legitimacy derives from charismatic individuality of an organisational leader and is regarded rare, transitory and idiosyncratic (Suchman, 1995). But, as I have already mention, this type of legitimacy is quite common in Russia. Probably, due to the traditions of paternalism and autocracy deeply rooted in Russian culture, Russian audiences tend to blend an organisation’s image with the personality of its leader; quite common is also a fact when a leader personifies, in common perception, his or her organisation.

2.3 Cognitive Legitimacy

It is possible to say that a fact in order to be accepted and, probably, institutionalised has first to be known. This assumption serves as a ground for the third type of legitimacy - cognitive legitimacy, based, unlike two previous types of legitimacy, on certain taken-for-grantedness of a cultural phenomenon. According to Jepperson, this taken-for-grantedness ”is distinct from evaluation: one may subject a pattern to positive, negative, or no evaluation, and in each case (differently) take it for granted”. (Jepperson, 1991:147). Cognitive legitimacy may appear in one of its two variants: based on comprehensibility and based on taken-for-grantedness.

Legitimacy based on *comprehensibility* depends, according to the theorists working in this field, on presence of certain cultural patterns, or models, which could provide suitable explanations for the existence organisation as well as its actions (Scott, 1991). ”In presence of such models organisational activity will prove predictable, meaningful, and inviting; in their absence, activity will collapse - not necessarily because of overt hostility (although this is certainly possible, given the threatening nature of the inexplicable), but more often because of repeated miscues, oversights, and distractions.” (Suchman, 1995:582). Moreover, such explanations should be stemming from a larger belief system and coinciding with the well-known facts of everyday life. (DiMaggio & Powell, 1991).

It is not difficult to guess that if the culture in question lacks such patterns, obtaining this type of legitimacy becomes virtually impossible, or, at best, becomes very time-consuming.

A short example may serve an explanation. In the Western countries the pattern of entrepreneurial behaviour and, accordingly, the figure of an ”entrepreneur” has become institutionalised. To call a man or a woman an entrepreneur means that he or she would easily find a certain place on the cognitive map of nearly every member of Western society.

On the other hand, to call a man or a woman an entrepreneur in Russia would imply both cognitive and emotional complications. A lot of people simply do not know what ”entrepreneur” (the Russian word for it, actually) means because, as a result of nearly eighty years of communist regime the traditions of entrepreneurial behaviour in the country became extinct. For those who are familiar with the word (and hence, the concept) it may have strong negative connotation because in the former USSR the entrepreneurial qualities were considered not just indecent but even criminal.

Taken-for-granted legitimacy, the other variant, presumes institutionalisation of the organisation, which thus goes beyond the span of control of its creators/managers, and its withdrawal from the social structure becomes impossible. As Zucker puts it, ”for things to be otherwise is literally unthinkable.” (Zucker, 1983:25). However, a manager could hardly account on obtaining this type of legitimacy. Although, according to Suchman, “this kind of taken -for-grantedness represents both the most subtle and the most powerful source of legitimacy identified to date”, (Suchman, 1995:583) it’s hard to disagree with his statement that “this type of legitimation generally lies beyond the reach of all but the most fortunate managers.” (Ibid.) I would like to add that for an organisation operating in a foreign culture the task to obtain taken-for-granted legitimacy might be twice as hard.

2.4 Is the Bigger the Better or Advantages of SMEs

As becomes apparent from the above, both Nabisco and AssiDomän are very clear cases of legitimacy clashes. Nabisco’s actions, being too open, were both unusual and incomprehensible, giving food to suspicions, i.e. lacking procedural legitimacy. So, the very openness of Nabisco’s actions led to moral legitimacy clashes. Plainly speaking, Nabisco executives had too high moral standards.

AssiDomän, in its turn, clashed on pragmatic legitimacy. Segezhabumprom provided work for its 5,500 employees and heating for the whole town of Segezha with its 35,000 inhabitants (Brakonier, 1997*)* who seemed vitally interested in keeping the mill running and profitable, and would definitely credit the company with both pragmatic and moral legitimacy. Nevertheless, the actions of the new Swedish management were inappropriate to former Russian director and his contacts (including one of the minor stockholders, Upack). They were the forces that made AssiDomän to withdraw.

These two failure stories make the success at Norrfrys even more prominent. So far, I would distinguish the two factors that played the major role in a respective company’s success or failure.

The first factor that may seem self-evident, is the size and flexibility that depends directly upon it. What is meant by ”flexibility” here is readiness and willingness to adapt to the norms of a foreign culture and, hence acquire legitimacy.

One may argue that the big (especially multinational) companies are quite sensitive for legitimacy and may even develop rather sophisticated strategies of pursuing it. The matter is, however, rather complicated due to the extremely complicated nature of the legitimacy concept itself. The strategies employed in gaining, maintaining and repairing legitimacy are meant to be used at home, when a company’s management and audience belong to the same culture. As I have stated above, people working in a different cultural surrounding are likely to miss the subtleties which contribute greatly to both moral legitimacy (things that every native can feel but you can't) and cognitive legitimacy (things that every native kid knows but you don't). Thus managers of a foreign company, while striving (consciously or unconsciously) for legitimacy are apt to miss its important constituents partly because of the ignorance, and partly due to cultural (legitimacy) clashes. It seems possible to say that while implementing a legitimacy strategy a manager will be most likely guided by the standards of his or her own culture. Nevertheless, the extent to which a company is bounded by the norms of its own culture, and to which it is able to act individually, seems a very interesting empirical question which I am going to address in my research.

And here the matter of size and flexibility comes again. The big companies are not only affected by the norms of a national culture, they create and possess a culture of their own. Hofstede in his classical book (1984) studied IBM's activities in 40 countries and was able to classify the deep-down distinctions between different national cultures. He took, however for granted that a multinational company would adapt itself to the host country's culture. The idea that the company may (mostly unconsciously) resist the adaptation was not discussed.

It seems possible to say that both national culture and company culture mould the behaviour of large firms making them, on one hand, less sensitive to the natural peculiarities concerning legitimacy, and on the other hand, more apt to resist in case of possible clashes. The big companies would rather defend their own standards than try to change them.

On the other hand, if we take a closer look at Norrfrys, the difference in strategy becomes evident. Although Norrfrys with its 340 employees cannot be regarded a small but rather as a medium-sized firm, it is worth mentioning that the company consists of a number of small semi-independent units and subsidiaries. The Pskov subsidiary, which we are talking about, had approx. 10 employees. This micro size seems to play one of the leading roles in its success.

The fact that Henrik Mella, the manager, spoke Russian and had certain understanding of the culture should not be underestimated. Still, as Mella himself points out, ”the main reason that made activities flow so smoothly as they did can be found in *very good relationships and open communication between the Swedes and the Russians* at the subsidiary”. (Mella, 1997: 38; his Italics, my translation).

In other words, neither party tried to suppress the other or impose its own standards. Quite the opposite, the Swedish manager, on behalf of the organisation, demonstrated the willingness to comply with the existing cultural norms. As becomes clear from the next quotation, the subsidiary succeeded in creating and maintaining both pragmatic (procedural) and cognitive legitimacy mostly through recruiting friendly co-optees (the accountant, first of all). Telling about creation of every-day work routine Mella says that ”as a rule I first suggested how a certain routine should be made or followed. Then the local employees, first of all the accountant and the freeze chamber operator, and even our secretary gave their views and ideas about how the routine could be modified to become more practical. The two absolute limits were the accountant's demand that it must be correct from legal and taxation point of view, the other - my demand of strict personal responsibility and absolutely clear way by which this responsibility can be transferred”. (Mella, 1997: 38; my translation).

Still, the assumptions stated above are very general. Russian idiosyncrasy that may become the key factor for a company's failure or success in implementing legitimacy strategy is closely connected to the fact that Russian culture is a high context one. It can be defined by opposing Åke Daun's (1989) definition of a low context culture, i.e. as rather unintegrated and heterogeneous. Members of such culture differ significantly from each other by ethnic origin, language, religious and moral values etc. So, according to this definition, it's not hard to understand that due to diversification of Russian population stakeholders and audiences of an organisation can be extremely heterogeneous and have different interests.

Suchman (1995) confirms that legitimacy is itself heterogeneous concept and its three constituents, i.e. pragmatic, moral and cognitive may clash with each other. However, he does not discuss the idea of legitimacy types being different for different groups of a company's stakeholders. That is why it seems necessary to introduce the concept of multiple legitimacy: not only clashes between different legitimacy types within one and the same group, the very concept of legitimate/illegitimate may differ dramatically among the groups.

In this case organisations implementing their legitimacy strategies should concentrate their efforts on two types of groups: pleasing decision-makers and neutralising the most potentially harmful group. This strategy resembles Suchman's (1995) advice to select environment in order to gain legitimacy. The multiple legitimacy concept may also help to explain SMEs seemingly bigger chances to succeed. Just because of the size of such companies a lot fewer people are involved in the activities and, thus, the risk for multiple legitimacy to occur becomes smaller. Norrfrys example can illustrate this assumption. The Pskov subsidiary enjoyed gaining all three types of legitimacy both among its suppliers, Russian berry-pickers, and the local authorities (tax authorities, as the most important) due to the smart strategy of employing friendly co-optees. As a result, these two big groups, and one of them particularly powerful, were interested in the organisation's survival.

2.5 "Can a Leopard Change Its Spots?" or Strategies for Gaining, Maintaining and Repairing Legitimacy

Discussing legitimation strategies for all three groups of legitimacy Suchman argues that all possible managerial actions can fall in one of the three groups, i.e. gaining, maintaining and repairing legitimacy (Ibid.). He brings the possible variants together within 3 x 3 matrix where the rows correspond to pragmatic-moral-cognitive trichotomy, whereas the columns show gaining-maintaining-repairing trichotomy. Following Oliver, he arranges possible actions within each block "from conforming to resistant, from passive to active, from preconscious to controlling, from impotent to influential, and from habitual to opportunistic" (Oliver, 1990). I would like to reproduce the matrix, adding a few comments concerning possibility and desirability of certain strategies on the Russian market (comments are typed in Italics and stay in brackets).

Table 1
Legitimation Strategies

Source: Mark C.Suchman, Managing Legitimacy: Strategic and Institutional Approach; own comments

	Gain	Maintain	Repair
General	Conform to environment Select environment Manipulate environment *(Both to select and to manipulate a foreign environment can be very difficult, sometimes hardly possible)*	Perceive change Protect accomplishments - Police operations - Communicate subtly - Stockpile legitimacy	Normalise Restructure Don't panic
Pragmatic	Conform to demands (*usually not a problem, but may be difficult in case of severe discord between the host culture's and the organisation's moral standards*) - Respond to needs - Co-opt constituents (*very important also from cognitive point of view)* - Build reputation Select markets - Locate friendly audiences - Recruit friendly co-optees (*especially important*) Advertise - Advertise product - Advertise image (*caution: first check possible negative connotations of the image*)	Monitor tastes (*in a foreign environment becomes even more important*) - Consult opinion leaders (*may occur the same problem as with conformity)* Protect exchanges - Police reliability - Communicate honestly - Stockpile trust (*check how honesty and trust are perceived in the host culture*)	Deny Create monitors

	Gain	Maintain	Repair
Moral	Conform to ideals - Produce proper outcomes - Embed in institutions - Offer symbols displays (*these strategies can be difficult to implement due to managers' lack of understanding of a foreign culture. In this case presence of friendly co-optees (see previous) becomes crucial*) Select domain - Define goals Persuade - Demonstrate success – Proselytise	Monitor ethics - Consult professions (*I'm afraid, the importance of professional organisations in Russia is not quite clear and requires further research*) Protect propriety - Police responsibility - Communicate authoritatively - Stockpile esteem	Excuse/Justify Disassociate - Replace personnel - Revise practices - Reconfigure
Cognitive	Conform to models - Mimic standards (*may be not especially good idea in* case of possible moral clashes) - Formalise operations (*may be very difficult in Russia due to tradition-dependant peculiarities of business practices*) - Professionalise operations Select labels - Seek certification Institutionalise – Persist - Popularise new models - Standardise new models (*may be one of the few possible ways of action*)	Monitor outlooks - Consult doubters (*I'd say - consult natives*) Protect assumptions - Police simplicity - Speak matter-of -factly (*in certain cultural environments may be inappropriate*) - Stockpile interconnections	Explain

APPENDIX A

Basics of RJR Nabisco Investment Program for "Northwest Foods", Russia

Presented by Mr.***, July 1993.

Nabisco intended to acquire the majority share of "Northwest Foods" stock and lately to invest in the company to bring up product quality, increase range of product, increase production capacity and productivity. Company intention was also to create well-paid jobs for the community.

1. Company strategic goal is to dominate in Russia food industry by producing certain products. Investments in "Northwest Foods" are the first stage of a long-term plan of expansion in Russia through acquiring existing businesses and building new operations in key regions. At present moment, according to Nabisco marketing research, "Northwest Foods" is able to satisfy demand of its product in Russia by 1 percent.

2. Nabisco will retain "Northwest Foods" management at present positions and bring from the USA a Production Director, responsible for production and engineering. Besides, when required, Finance, Technical, Materials, Sales and Marketing experts will visit "Northwest Foods" and advise to its management. Russian management and key specialists will be trained at Nabisco US operations.

3. Nabisco would employ young graduates at the company managerial positions. First they will have to deal with current problems, and later be prepared for the top management positions. To increase efficiency Nabisco will supply existing offices with computers and communication facilities.

4. Nabisco objective is to make "Northwest Foods" products correspond to Nabisco quality specifications and mark them by Nabisco's triangle. It will guarantee the product quality and will make it possible to sell the product at a premium price. So, the product must be able to compete with the West companies' products in Russian market.

APPENDIX B

Establishing of "Northwest Foods" Open Type Joint-Stock Company

According to a contract, the former USSR Gosagroprom state body has imported production plants to install 18 food factories producing cereal breakfasts and crackers. Twelve of them were supposed to install in Russia. *** region authorities persuaded Russian Ministry of Agriculture to move some of the imported machinery to the region and construct a food factory (The Food Combine) producing cereals and crackers in the region's capital city. The factory was meant to produce new products, uncommon in Russia, and bearing in mind high productivity of the factory, its products were intended to be exported out of the region in exchange for other consumer goods.

The region authorities did their best to bring funds, materials and people to construction of would-be factory, and to the installation and commissioning of the plant. Works have been persistently controlled.

Cereals manufacturing plant was supplied by APV Baker (UK) and cracker lines were imported from Orlandi (Italy). APV executives first visited the site and had talks with the managers of future factory in September 1989; installation and commissioning of the plant were executed from October 1990 till May 1991. Orlandi representatives first visited the site in March 1990, the company began equipment installation in December 1990; the first production line became operational in June 1991, and two more were brought to full capacity in September 1992.

After the President Decree of “mass privatisation” had been issued, in September 1992 Privatisation Plan for the Food Combine was developed. Region-owned factory was to become ”Northwest Foods” Open Type Join-Stock company. Privatisation was carried out according to the Privatisation Benefits Option 2, when 51 percent of stock had to be purchased by the company employees from the state at 1.7 par. ”Northwest Foods” JSC was registered by the region Registration Chamber on 9 October 1992.

Privatisation plan included the following:

- closed subscription among the employees for 51 percent of stock;
- 29 percent of stock to be sold for vouchers at open auction;
- 15 percent of stock to be sold at cash auctions;
- 5 percent of stock to be part sold and part given free to ”Northwest Foods” employees.

Value of ”Northwest Foods” fixed assets was estimated in prices before 1 June 1992 of 49.8 million of roubles. So, to buy out 51 percent of stock 509 of the company employees, participating in closed subscription, had to collect 84.7 million of roubles in total, that made average 166,000 roubles per person.

Because in 1992 an average ”Northwest Foods” employee could hardly afford collecting such money, ”Northwest Foods” top managers channelled part of the company profit to privatisation fund. Money was distributed among the company’s employees and it helped to decrease everybody’s cash and voucher contribution. In average every employee was granted 100,000 roubles; that time average salary was 7,000 roubles per month.

According to the results of closed subscription, the company employees acquired 36 percent of the stock, and the management - 15 percent.

The Food Combine had much publicity from local press and television, its products were selling well by local trade network. Those were the reasons for the “share boom” among population of the region, when the factory stock was put at auction. Because of that the factory was the first enterprise put at voucher auction according to the decision of the regional State Property Fund.

In accordance with the voucher auctions' procedure, privatised company was not allowed to participate in auction legally, so ”Northwest Foods” JSC had a nominee individual participating in the auction.

”Northwest Foods” top managers used money from privatisation fund to buy vouchers at the secondary market at 0.30-0.45 par. In total, 18,000 vouchers were purchased and distributed among the company employees. Distribution procedure was developed by the company top management and formally approved by the employees' conference. After voucher auction had been completed and its results known, the nominee resold shares to the shareholders according to the instructions from ”Northwest Foods” top managers.

Besides, Alfa-Capital, Moscow-based voucher investment fund (VIF), also took part in the voucher auction, obtaining its goal of acquiring food companies' stock. Because VIFs were not allowed to buy more than 10 percent of one company stock, Alfa-Capital also participated through the nominee individual.

So, after auction in March 1993 the stock was distributed the following way:

- from ”Northwest Foods” JSC - 18004 vouchers, 13.0 percent of stock;
- from Alfa-Capital VIF - 20150 vouchers, 14.6 percent of stock;
- from 317 of minor investors - 985 vouchers, 0.7 percent of stock.

TOTAL: 39135 vouchers, 28.3 percent of stock.

Results of the voucher auction were most discouraging. A big lot of vouchers was expected from minor investor, but no one had expected that huge lot of 18,000 vouchers from ”Northwest Foods” and, moreover, a lot of 20,000 vouchers from the Moscow VIF. Shares of 1,000 roubles par were sold at the auction at 27,000 roubles. According to the auction rules, to draw the whole value of a voucher (it could not be split), shares had to be split, their par value was decreased 25 times and their amount was increased 25 times, respectively. In this case auction winners could obtain 9 shares of 40 roubles par. The same split was done to the shares obtained through closed subscription.

Right after closed subscription and voucher auction struggle for majority share had burst out. After these two stages of privatisation plan ”Northwest Foods” employees and managers possessed 64 percent of the stock, and Alfa-Capital VIF - 14.6 percent.

”Northwest Foods” contacted RJR Nabisco, US-based multinational company. The intention was to attract a major foreign production investor, upgrade the process technology and equipment, and start exporting the products. ”Northwest Foods” had an intermediary to sell 10 percent of its stock to Nabisco.

Alfa-Capital hired “Profitable Issues”, a regional finance company to buy out shares on its behalf from minor investors, gradually increasing the price from 30 and even to 80 par value. Number of shares in its possession rocketed up. ”North-West Foods” top managers were also offered to sell their shares.

In December 1993 the regional State Property Fund had sold in total 79.3 percent of stock. Alfa-Capital held already 55 percent of stock and 10 percent was held by Nabisco. In December 1993 Alfa-Capital managed to buy out all the shares from ”North-West Foods” top managers.

Having lost the competition for ”Northwest Foods” shares, Nabisco sold its shares to Alfa-Capital in 1994. After that, Alfa-Capital had purchased remaining 15.7 percent of stock at the cash auction and bought out 5 percent of stock from the employees, after the lot had been distributed among them. So, VIF managed to obtain over 99 percent of the stock, directly or through nominees.

In December 1993 Alfa-Capital has replaced all the ”Northwest Foods” top managers, and appointed its own employee the General Manager. Still, during 1994 VIF has changed its mind concerning ”Northwest Foods”. Instead of running the company itself, VIF decided to sell it to a foreign investor at a closed tender bid. The tender bid was carried out by CS First Boston Moscow office. Few foreign companies had participated in the tender and the winner was to negotiate the deal.

”Northwest Foods” stock has never yielded any dividend

ENDNOTES

[1] General managers of older generation who had been running enterprises in Soviet times and retained their positions even after privatisation.

REFERENCES

Berger, P.L., Berger, B. & Kellner, H. 1973. *The homeless mind: Modernisation and consciousness.* New York: Random House

Brakonier, Per. 5500 tvingas bort från AssiDomäns ryska fabrik. *Dagens industri*, 8 mars 1997

Daun, Åke. 1989 *Svensk mentalitet*. Raben&Sjögren

DiMaggio, P.J. & Powell, W.W. 1991. Introduction. In W.W. Powell & P.J. DiMaggio (Eds.), *The new institutionalism in organisational analysis:* 1 - 38. Chicago: University of Chicago Press

Greenwood, R. & Suddaby, R. 1998. *Through the glass darkly: Institutional accounts of organisation structure.* Paper presented at the seminar for Ph.D. students at JIBS, Jönköping, Sweden

Gummesson, E. 1991. *Qualitative methods in management research*. London: Sage publications

Hofstede, Geert. 1984. *Culture's Consequences. International Differences in Work-Related Values*. London: Sage publications

Jepperson, R.L. 1991. Institutions, institutional effects, and institutionalism. In W.W. Powell & P.J. DiMaggio (Eds.), *The new institutionalism in organisational analysis:* 143 - 163. Chicago: University of Chicago Press

Martin, J. 1990. Breaking up the mono-method monopolies in organisational analysis. In J. Hassard & D.Pym (Eds.), *The theory and philosophy of organisations*.

Maxwell, J.A. 1997. Designing a qualitative study. In L. Bickman & D. J. Rog (Eds.), *Handbook of applied social research methods:* 69 - 100, Sage Publications

Mella, Henrik., 1997. Organisation av bärinköp i Ryssland - en fallstudie. Examensuppsats inom ramen för ämneskurs Ekonomisk Analys och Styrning. Handelshögskola, Stockholm.

Meyer, J.W. & Rowan, B. 1991. Institutionalised organisations: Formal structure as myth and ceremony. In W.W. Powell & P.J. DiMaggio (Eds.), *The new institutionalism in organisational analysis:* 41 - 62. Chicago: University of Chicago Press

Oliver, C. 1991 Strategic responses to institutional processes. *Academy of Management Review, 16*: 145 - 179

Pfeffer, J. & Salancik, G. 1978. *The external control of organisations: A resource dependence perspective*. New York: Harper & Row

Scott, W.R. 1991. Unpacking institutional arguments. In W.W. Powell & P.J. DiMaggio (Eds.), *The new institutionalism in organisational analysis:* 164 - 182. Chicago: University of Chicago Press

Suchman, M.C., 1995. Managing legitimacy: Strategic and Institutional approaches. *Academy of Management Review, 20*: 571 - 610

Swidler, A. 1986. Culture in action: Symbols and strategies. *American Sociological Review, 51*: 273 - 286

Write,M., Hoskinson, R.E., Filatochev, I., Buck, T. 1998. Revitalising privatised Russian enterprises. *Academy of Management Executive*, 12 (2)

Zucker, L.G. 1983. Organisations as institutions. In S.B. Bacharach (Ed.), *Research in the sociology of organisations*: 1 - 42. Greenwich, CT: JAI Press

Other Sources

AssiDomän Press Information. ”AssiDomän stresses turnaround in Segezha”. <http://www.asdo.se/english/senast/960924.htm>, September 1, 1998

AssiDomän Press Information. ”The Segezhabomprom project - a background”. <http://www.asdo.se/english/senast/980212_2.htm>, September 1, 1998

AssiDomän Press Information. ”AssiDomän to withdraw from Segezha”. <http://www.asdo.se/english/senast/980212.htm>, September 1, 1998