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## **CROSS-CULTURAL COLLABORATION IN CONTEMPORARY RUSSIA: PROBLEMS OF CONTRACTING**

This article presents the results of research into contract-making and implementation between Russian and foreign companies. International contract-making is regarded as an element of cross-cultural collaboration, which inevitably reveals the cultural background of the parties. The article is based on a case study of three international companies conducting business in Russia. To comprehend the empirical material critically, the analysis applies concepts relating to cross-cultural collaboration and experiences of contracting in the sociological and anthropological literature. The ambiguities in the practice of contracting, which is rigid in form but flexible in execution, allow us to better understand the role of the codified and informal rules regulating business in contemporary Russia.

Key words: International Business, Investment Climate, Cross-Border Contracting, Cultural Regulations

Foreign investment is a key condition for the implementation of social policy in contemporary Russia. Developing international partnerships promotes the country's overall economic growth, improving innovative production, replenishing the state budget through taxes and preventing unemployment. In particular regions, transnational corporations may be regarded as subjects of social policy on par with the national providers of social policy, affecting the well-being of members of society by shaping the distribution of and access to goods and resources (Cheyue et al. 2005: 3).

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The decline in investment resources is a significant problem facing Russia's economy today. According to the Federal State Statistics Service of Russia (*Rosstat*) foreign direct investment (*FDI*) in the Russian economy decreased by 2.5% in 2014 and the decline will continue in 2015 (Zagorskii 2015). The Global Investment Trend Monitor reports an even more dramatic drop in *FDI* in the Russian economy: "FDP flows to the Russian Federation are estimated to have fallen by 70%" (Global *FDI* 2015).

Alongside the ongoing economic crisis, problems of international and trans-border cooperation between individual companies have become increasingly urgent. Currently Russia is facing geopolitical problems, economic sanctions and increasing political risks, which for the time being are having a dramatic impact on the investment climate. However, this article is devoted to more general and more constant problems relating to the investment climate in Russia, caused by specific features of Russian business culture, which play an important, enduring role in the development of international collaboration.

International cooperation brings with it a number of difficulties rooted in geographical distance, different institutional spaces and language barriers. Yet, it often turns out that the internal structures of institutions are easier to understand than the rules and principles governing their operation. The specificities of how business is conducted and the practices shaped by cultural and social factors in each of the countries involved can challenge mutual understanding among partners and impact the effectiveness of international communication and cooperation.

This research sets out the problems of cross-cultural business collaboration through the prism of contracts between Russian and foreign companies. Contracts are an essential part of any business. Contract-making by parties belonging to different cultures reveals differences in their attitudes and expectations towards the rigidity, purposes and functions of a contract and, more broadly, the degree of trust, the mechanisms of regulations and the role of law in their respective societies. As researchers argue, the experience of contract-making and implementation most clearly shows the distinctive cultural features of doing business (Hooker 2003; Maeneil 1978; Chang 2006).

This inquiry is based on in-depth research into the everyday experiences of international companies active in Russia. A non-positivist approach allowed for a detailed investigation of particular cases and the collection of materials about the recent experiences of contracting by international companies, and pick out the characteristic cultural features of the context within which international business cooperation in and with Russia is conducted.

### **Case-study of cross-cultural contracting in the North-West region of Russia**

The research was conducted in Saint Petersburg, a city in the North-West of Russia, which in 2012–13 was one of the most attractive regions for investment

in the country (Investitsionnyi reiting 2013). Generally, Russia's shared borders with Finland, Estonia, Latvia and Belarus facilitate its successful cooperation with member states of the European Union and members of the Customs Union on the basis of intergovernmental and regional agreements (Agreement 2012). According to data provided by the Russian Federal State Statistics Service at the end of 2011, 4065 organizations established with foreign capital have been registered in the North West of Russia (Rosstat 2011).

Three such foreign companies doing business in the North-West constitute the case studies of this project. The selected companies represent large and medium-sized businesses. Other criteria used in the selection of the cases include the following: companies should originate in countries that lead in the field of international business cooperation with Russia (in particular with the North-West region); they should engage in the most popular economic sectors from the point of view of foreign investment; they should have a history of operating in Russia for at least three years; and they should be large or medium-sized companies. As a result, a German-Swedish, a Finnish and a North American company were selected. The names and specific activities of these companies are obscured to protect their interests and standing in the market.

The case studies included interviews with the companies' managers and lawyers, a study of the history of the companies' operations in Russia and an analysis of significant documents, such as corporate codes of ethics, arbitration proceedings involving the companies and references to the companies on the Internet. The interviews with managers and lawyers followed the principles of in-depth semi-structured interviews and made use of an interview guide, which listed the main topics and areas to be discussed. For the purpose of this research project, the topics included: the history of the company in Russia, human resource policies (hiring, recruitment etc.) and changes to them in recent years, the specificities of business management in Russia, the conventionality of the legal field, the overall business strategy of the company, the problems and obstacles for conducting international business in Russia and the problems of international contracting. Respondents were encouraged to respond freely; there were no standardized answer options. The free interview form allows researchers to receive answers that reflect the interlocutors' own cognitive and mental constructions.

*German-Swedish company:* Originally, the Russian office was an independent company in Russian ownership but now represents a German-Swedish company. Fifteen years ago, a German-Swedish alliance bought the Russian company and reorganized the Russian branch into its representative office. The Russian office interacts with customers, consumers of the company's services, who, as a rule, are Russian businessmen. The activities of the Russian branch in terms of documentation, reports and contracts are controlled by the main office abroad. The Russian representative deals with all specific issues involving Russian customers.

*Finnish company:* The company opened two branches in the North-West region in 2008. Originally, Finnish specialists managed the company's business

in Russia but at present Russian experts are in the majority, with several foreign specialists on staff as well. The company has a Russian lawyer on staff. The company's head office is located in Helsinki and its approval is usually required for business-related decisions. The general manager is a Russian specialist with a European degree; over several years this specialist acquired the reputation of being an honest and reliable employee and developed a sense of trust with the management. The general manager can solve a number of problems on his own and does not need to receive approval from the Finnish office.

*North-American Company:* The company has been operating in Russia for 35 years. The last ten years saw major growth, including the expansion of the range of production items and an increase of production volumes. The company operates in several regions of Russia and has several business lines. Customers of the Russian branch of the company are mainly Russian businessmen. The management of the Russian branch includes several hundred people. Most manufacturing and management issues are solved at the level of the Moscow office. The company has a corporate code of ethics that governs all branches of the company all over the world.

In addition to the case-studies, we conducted three expert interviews with the representative of construction business in Finland, who regularly collaborates with Russian colleagues and clients (*expert\_develop*), with a Russian lawyer working in a Finnish company (*expert\_law\_fin*) and the manager of a Finnish consulting company operating in Russia that promotes Finnish companies on the Russian market (*expert\_consulting*). Involving experts to discuss the activities of international companies allowed us to use some of their statements not only to summarize expert opinions but also to illustrate certain features of international cooperation and practices of international contacts.

The same method of semi-structured interview was used when interviewing the experts. For the expert interviews a special questionnaire was designed, which included general questions on the problems and specificities of cross-cultural collaboration with Russian companies. It also contained questions on formal and informal regulative norms, managing business in Russia and, particularly, on the practice of contracting between Russian and foreign companies.

In total during the field research we conducted nine interviews: three with experts, three with the managers and lawyer of the Finnish company, two interviews with the manager and lawyer of the North-American company, and one interview with the manager of the German-Swedish company.

The qualitative method of sequential analysis was applied to all the interviews. We identified the general attitudes of the respondents and experts on the specificities of doing business in Russia, including: comprehension of the law and informal regulative mechanisms, the meanings of trust and background knowledge. Special attention was paid to the examples of contracting discussed in the interviews. The bureaucratic specificities of contracting, the comprehension of the purposes, functions, guaranties and enforceability of contracts,

contract-based expectations of the parties – all these elements were reflected upon by the respondents and analyzed accordingly.

### **Cultural-anthropological approach to the analysis of international collaboration**

The theoretical framework for the research is based on conceptions of cross-cultural collaboration. Different societies utilize different practices to manage and regulate business. The Dutch anthropologist Geert Hofstede, one of the first scholars to analyze organizational culture in a comparative perspective (see: Hofstede 1973; Hofstede 1983: 625–629), focused on the cultural dimensions of organizations. According to his work, any culture can be evaluated by utilizing five categories: power distance, individualism, uncertainty avoidance, masculinity and long-term orientation.

Building on this scholarship, researchers developed a methodology that allows us to characterize the business culture of each country by measuring the relevant criteria. For instance, US-based anthropologist and cross-cultural researcher Edward T. Hall developed Hofstede's approach in his famous work "Beyond Culture" (1976), suggesting the importance of distinguishing between low-context and high-context cultures. Hall referred to a culture's tendency to use high-context messages rather than low-context messages in routine communication. In a high-context culture, many things are left unsaid and require cultural context to illuminate the meaning. Words and word choice become very important in higher-context communication. In a lower-context culture the communicator needs to be much more explicit and the value of a single word is less important.

Recent research in the field has studied different cultural rules of managing business and international communication (see, Ferraro 2005; Chaney 2005; Sellin, Winters 2005; Chang 2006). For instance, American anthropologist John Hooker (2003) developed a concept according to which cultures are divided not by high- or low-context messaging but by whether they can be described as rule-based or relationship-based cultures. Hooker thus assumes a continuum between different cultures that results from multiple combinations of features of both types of cultures. Moreover, Hooker suggests that there are varieties of rule-based cultures and relationship-based cultures in different countries. Rather than assigning one culture to one particular type, it is worth noting the prevalence of certain trends.

The difference between rule-based and relationship-based cultures, according to Hooker, does not result from the presence or absence of rules as such but from whether they are followed and whether there exist the mechanisms to regulate the implementation of said rules. In rule-based cultures people respect rules for their own sake and "personal relationships are relatively unimportant in the enforcement of rules, the rules tend to be spelled out explicitly, and people are taught to pay attention to them" (Hooker 2012: 395).

The regulation of behavior in relationship-based cultures is enforced through close supervision by authority figures. This requires respect for authority, often for persons with whom one has or has had significant relationships, such as parents, elders, bosses or even departed ancestors. In addition, rule-based and relationship-based cultures differ in terms of the meaning ascribed to interpersonal relationships, perceptions of bureaucracy and perceptions of transparency in business.

Hofstede's approach for investigating and comprehending culture, subsequently developed by Hall and Hooker, has been strongly criticized for its lack of a clear definition of culture and overly broad generalizations (McSweeney 2002; Baskerville 2003; Merkin 2006). For example, Brendan McSweeney carefully considers Hofstede's attempt to characterize "national culture", based on research into particular companies and seeks to correct the generalization of Hofstede's results: "If it is supposed that there are national cultures, then it can be legitimately argued that national cultures as 'central tendencies' exist" (McSweeney 2002: 100).

Another problem with Hofstede's concept was his attempt to explain all stratifications and differences produced by employers with reference to differences between national cultures. Instead of seeking to explain assumed national uniformity with reference to the essentialist notion of national culture, McSweeney suggests using theories of action which take account of change, power, variety, multiple influences – including the non-national – and the complexity and situational variability of the individual subject (McSweeney 2002: 113).

Modern researchers of cross-cultural differences in business practices refer to the concept of culture as a complex analytical category with many dimensions. For instance, Barry Tomalin and Mike Nicks divide the notion of culture into three elements: attitudes and values, behavior and cultural knowledge (Tomalin, Nicks 2007: 15). In addition, the different levels of analysis – company, regional, national and also international – have to be taken into account in the process of cross-cultural business communication research. Personal experience also affects the efficiency of cross-cultural business communication. Tomalin and Nicks give an example:

Individuals brought up in a "loose" time environment, such as Brazil or India, may feel that they are never actually late, even though they consistently arrive long after the schedule moment for an appointment of meeting. But a person from a «tight» time environment – the USA and the UK are examples – can feel irritated if someone is as little as five minutes late (Tomalin, Nicks 2007: 23).

The further fragmentation of cross-cultural business communication research requires a focus on particular practices of cross-cultural interaction. For example Anna Mattila's study (1999) of the influence of culture on purchase motivation in service encounters distinguished between Asian and Western countries.

In other words, research into cross-cultural collaboration appears an ambitious endeavour. The investigation of cultural specificities requires at least three points to be taken into account: the complex structure of culture; the different levels of analysis with reference to cultural features: from the personal to transnational; and finally, the investigation of particular practices revealing specific, not general, cultural differences. No research is capable of producing a universal formula for cross-cultural business collaboration. Results of any research into cross-cultural collaboration should be regarded as recommendations but never as dogma.

Our research investigated practices of cross-cultural contracting. There are many different approaches to studying contract-making in the international sphere. We utilized the empirical approach proposed by Nysten-Haarala (1998) and Deakin and Michie (1997). Expanding on the traditional study of rigid and flexible elements in business contracts, these authors suggest considering a contract as a process, including the stages of preparation and execution, rather than focusing on the contract document or contractual law (Nysten-Haarala et al. 2010: 467).

Focusing on the procedural aspect of contract-making allowed us to analyze contracts, familiar objects of study for lawyers and legislators, from sociological and cultural-anthropological research perspectives. To do so, it is important to consider the tensions emerging from different understandings of contracts in international cooperation involving Russian companies, the cultural dimensions of how contracts are understood and the function and regulatory potential of contracts. For this analysis, we relied on the evaluations, ideas and descriptions of contracting experience given during the interviews.

### **Practices of cross-cultural contract-making in Russia**

According to the spectrum of cultural context levels identified by Copeland and Griggs (1986), Russia is a high-context culture, whereas the USA, Germany and Scandinavian countries are identified as low-context cultures. However, Hooker characterizes Russian business culture ambiguously. Not presenting any empirical data, he relies on generalized ideas about "Western" and "Eastern" business cultures. He characterizes Russia as a transitional type:

Russian Society is essentially rule-based, but partners may find it more important to feel comfortable with each other than to get the financials rights. Business people from abroad should be particularly cognizant of this, due to the uncertainty-avoiding culture and the tendency of Russians to feel apprehensive about foreigners. Frequent references to mutual Russian friends and contracts can be reassuring, as can participating in such rituals as vodka drinking and banya, the Russian sauna (Hooker 2012: 403).

To understand current international business cooperation in Russia in general, it is useful to analyze business partners' attitudes toward official rules,

i.e. laws governing the economic sphere, based on empirical material. According to the experts who participated in the study, the Russian legal system is sufficiently independent and professional knowledge of Russian law is necessary to conduct business in Russia. All companies that participated in our study have Russian lawyers on staff.

International cooperation involving Russian partners must strictly follow Russian codified law, as one interviewee suggested:

Knowledge and understanding of the specifics of the Russian language, Russian customs regulations. People just have to be ready for them. Roughly speaking, we should prepare two sets of documents: for Finnish customs to export goods to Russia, and for Russian customs, and <...> in practice they are different (expert\_law\_fin).

Herewith, the position of experts concerning the Russian practice of law enforcement is quite controversial. The rigidity of rules as stated in legislation is not necessarily followed in practice. According to some experts who run a real-estate business in Finland, disregard for the law and for rules in general is common among Russian developers:

In some cases, they simply do not realize that there is such a thing as law. Because in Russia, if you buy a large piece of land, you can, in general, build your house as you see it. This is not possible in Finland (expert\_develop).

As shown by this statement and business strategies including decisions by the human resource department, managers of foreign companies recognize that in addition to the system of codified law, there are alternative rules and regulations at work in Russia that often play a decisive role. It is difficult to list these rules or to categorize them. They concern technological instructions, the chain of command, the practice of interagency cooperation, the rules of interpersonal interactions and a layer of deeper cultural knowledge that may be necessary to solve business problems. To use Hall's terminology, they form a context. Hall also uses another term to identify this hidden, routinized knowledge: "background" (Hall 1976: 118–120). Following up on this, John Searle's concept of background practices (1980) allows for a more specific understanding of "context".

Searle defines background practices as a set of features, capabilities, tendencies and attitudes that people have but which do not belong to the category of conscious skills. They are a habitually non-articulated set of ideas shared by members of a particular culture. Background knowledge informs any action or communication. In other words, not only details of business etiquette or specific gestures are important but also the tone and style of messages, the timing of a business phone call, the mood of the inspector who comes to examine the books, the method chosen to deliver business correspondence, etc. In order to recognize these encrypted codes of everyday life, it is not enough to learn the Russian language.



Handling hidden rules and regulations requires a certain expertise. In interviews, representatives of international companies with branches in Russia frequently refer to the Russian employees of their companies as the "right Russian person". As a manager working in the Finnish company in our study admitted, he is that very rare professional of Russian origin, who contributes insider knowledge and has a European education. Furthermore, the respondents agreed that, in addition to professional skills and social competence, employees must bring a set of moral qualities such as honesty, decency, predictability and dedication:

I think it should be a person who is both honest and knowledgeable in the business sphere. Anyone who has opened a business there [in Russia] says that it is the most important thing. You have to find an honest man and you know that this is the most difficult aspect – to find such a person (expert\_develop).

The case studies allowed us to compare the qualities of the manager of a foreign company with Russian roots with those of the American-born manager of an American company operating in Russia. Knowing the realities of Russian life is an undeniable advantage for the Russian manager. While respecting the principles of legality and transparency of business, the Russian manager, in certain cases, also uses his knowledge of informal rules at work in Russian society and the business sphere to optimize the company's performance. In particular, the interviewee mentioned the role of personal networks:

I have a good friend, who works in a fairly high position in the Ministry of Internal Affairs ... Once there were very unflattering comments about our café on one of the websites evaluating restaurants in St. Petersburg. ... I simply called my friend, explained the situation and asked, "Can you find out who wrote the comments?" – "No problem, you'll get all the information in two hours". And such things, not only involving with governmental agencies, happen regularly (manager\_Fin).

The American manager has five years' experience of living and working in Russia and to a certain extent is familiar with the rules of doing business in Russia. However, he sees official laws as the most important framework to govern business. This is predictable, if we follow the concepts of Hall (1976) and Hooker (2012) and apply them to the principles of transparency in Western companies. In addition, I suggest another interpretation that notes the role of regulatory systems operating in Russian society. From this perspective, the normative system of law is much more predictable, unambiguous and understandable for outsiders of Russian society. The system of alternative norms and rules is complex, not always obvious, and very dynamic. As a result, the consequences of not dealing with these alternative rules correctly are as unpredictable as the system itself and can cause severe disruptions. At the same time, the strict adherence to the system of law as the primary regulator of business in the Russian context can be motivated, among other things, by the fear of violating informal rules. Oddly enough, the status of informal

rules in the regulation of Russian business is similar to the system of codified law and can determine the success or failure of a company.

The status of codified law in Russian business culture is ambiguous. Recognizing that it is important entails needing to know how it is applied in practice (see: Titaev 2005; Paneyakh 2008; Volkov 2005). Also, to minimize risks, one must have context knowledge and keep in mind that alternative rules may define the practice of law enforcement. Business contracts signed in Russia that involve Russian partners must deal with this dual structure of legal and informal regulation.

According to the managers who participated in our case study, the Russian way of concluding a contract seems too rigid and official. As one manager points out, not only are the main stipulations of the contract written on paper but any additional agreements or decisions are as well. However, such rigidity of fixing contracts on paper does not necessarily mean that the contract parties comply with them in practice. According to our interviews with managers and experts, the function of the formal contract is ambiguous. The implementation of contracts often includes systematic negligence. Contracts regulations are regularly violated, but this rarely leads to any sanctions. Some managers stated that delayed payments for services rendered are a frequent nuisance. Timely payment, which would mean the fulfillment of contract conditions, is the exception:

I: To what extent do contract parties honor the agreements? Someone not doing something on time or not paying, does that happen?

R: In general, it is difficult to control it, because we have too many clients. We can't ... I mean, we see, that there is an unpaid bill. The accountants already noticed it, they call and ask – why don't you pay? But, as a rule, there are a lot of clients that don't pay until the last moment. And the only way to get money from them – is when they are ordering the next container, we first look at their debts (manager\_Germ).

In order to prevent such violations, sometimes partial or full prepayment is required. However, in some cases and for regular customers, the company prefers to allow this space of uncertainty and flexibility, using the threat of punishment in order to maintain the relationship with clients whose purchases, in the long run, increase the company's profit.

The existence of a contract document does not always guarantee that the conditions, rights and responsibilities fixed in it will be fulfilled. It requires special skills to understand this and to work while recognizing this uncertainty:

In Finland, if someone gives you a letter of credit, first of all, it is guaranteed by the bank, to which the company is attached, so you can trust it. <...> Here in Russia it doesn't mean anything. <...> This sounds awful, I know – you should not trust anyone. So I think that this is a very special and unique situation here (manager\_Fin).

The making and implementation of contracts involves particular challenges that – as with the applicability of different sets of rules – cannot be solved without

context knowledge. Contracts are rigid in form but analyzing the whole process of a contract relationship, one cannot but note flexibility with regard to their implementation and the use of sanctions in the event of contract violations. In some cases, the reputation of the familiar client counts more than the stipulations of the agreement recorded on paper. In other instances, the most profitable strategy to respond to contract violations is to delay the application of sanctions for an uncertain period.

### **Concluding remarks**

The results of the research should not be understood as definitive conclusions on Russian business culture or international contracting with Russian companies. The empirical research is geographically limited: the research was carried out in only one region of Russia. Empirical data was also quite scant: only three cases were available for the research. Besides, exploring such complex problems as cross-cultural collaboration and cross-cultural contracting, we are entitled to draw conclusions on main tendencies, rather than on culture in general.

The empirical research demonstrates that in addition to codified law, there is a thick layer of informal rules that regulate business and contract relationships in Russia. In one form or another, all companies face problems of corruption and bureaucratic obstacles. Knowledge of the context or background practices is significant for business-related communication, as the lack of such insight significantly increases financial and other economic risks.

Informal networks play a significant role in the regulation and protection of business in Russia. The research shows that in particular cases foreign managers appreciate the function of a Russian guide or "Right Russian Person", who is familiar with the cultural background and hidden risks. In this point, the Russian way of doing business displays features of relationship-based culture. However, it is not about traditionalist relations among members of a family or a clan. The professional and moral characteristics of the "Right Person" are much more important. But still, a particular person may be recognized as providing a stronger guarantee of protection for business than the legal system.

Hooker believes that the stage of negotiating and preparing a contract is usually dominated by the rules of the territory where the communication takes place (Hooker 2012: 405). The practice of cross-cultural contract-making and implementation between Russian and foreign companies is revealing in terms of the Russian way of doing business overall.

Foreign managers in Russia notice the basic, internal contradiction of contract practice: that the compulsory and rigid fixation of contract conditions on paper itself does not impede their flexible implementation. On the one hand, it could mean that the Russian representative offices are controlled tightly by the foreign head offices. Considering the difference in cultures and permanent business risks, regulatory authorities require detailed reports from the Russian

partners. Reporting documents and signed contracts may also be considered as a means of additional support for the Russian office in the event of a controversial situation. Another possible interpretation: the contract in the Russian business practice means more than the usual fixing of conditions on paper and includes also the process of fulfillment of the terms of the signed contract. Herewith a part of fulfillment can be controlled both by the norms of the Civil Code and by informal rules. The last complex of rules allows certain delays in payments or spontaneous correction of the terms of the contract. In this case, the contract on paper means first a supporting component of the contractual relationship, which is regulated together – partly or fully – by a set of informal rules. The contract in such a case can be signed "just in case". Each of the sides thus gets certain leverage that can be used or not used at the discretion of either side. Breaking the contract conditions does not necessarily entail a trial. The trial is often recognized by businessmen as an obstacle, preventing normal business from functioning. According to the interviews, there are some common expressions, such as: "*to frazzle the opponent in litigation*" (*umorit' sudebnymi razbiratel'stvami*) and "*worn on the courts*" (*zataskat' po sudam*). Law is thus likely to be regarded not as a main but as an auxiliary regulating system with respect to non-formal rules. The court itself is built into this system of rules of the game as an element of manipulation and pressure on the opponent.

### Acknowledgements

The project was made possible by a grant of the International Discussion Club "Valdai", 2012–2013 (<http://valdaiclub.com/>).

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