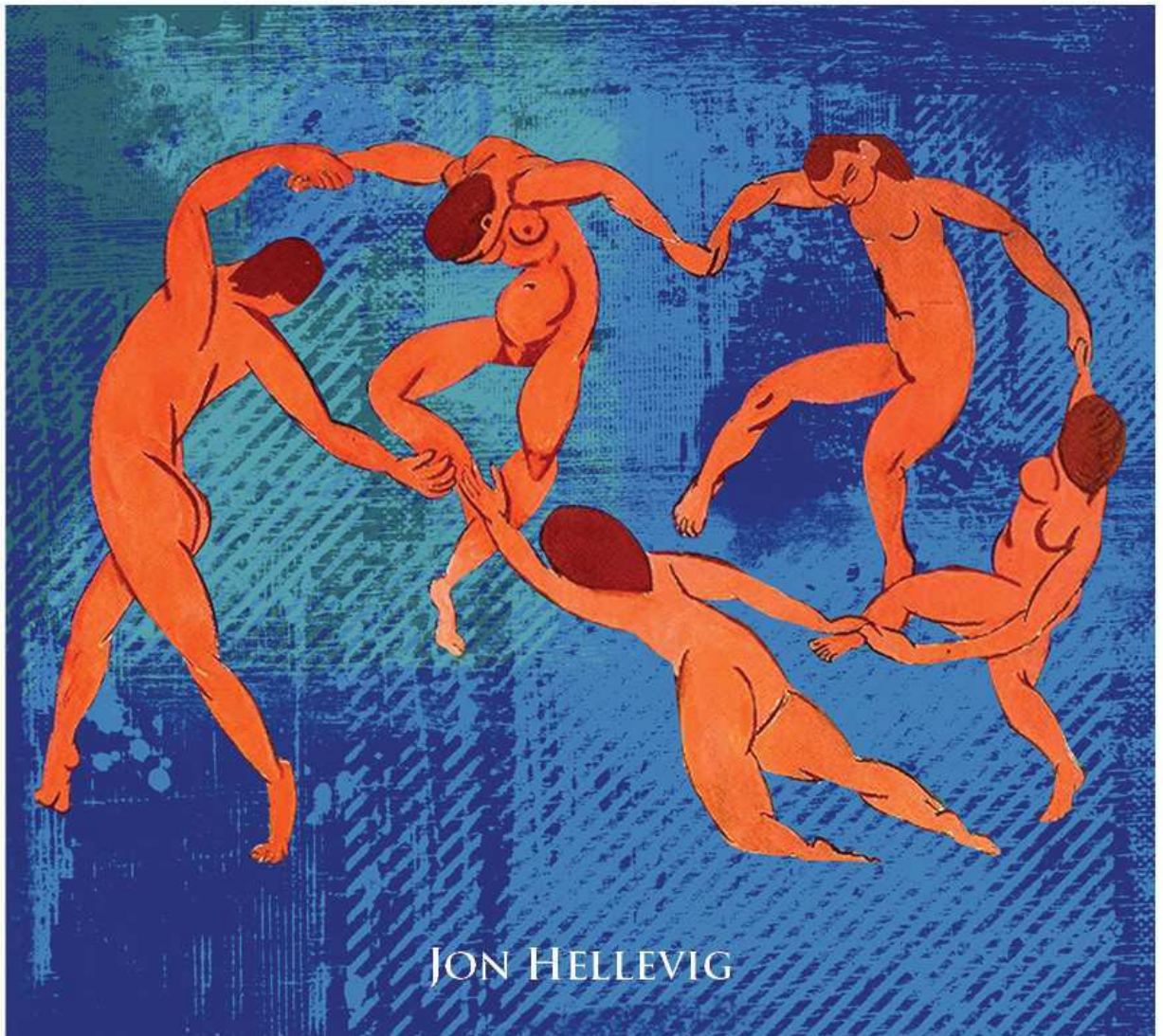# EMPLOYEE ENGAGEMENT IN RUSSIA

HOW TO BUILD A CORPORATE CULTURE OF ENGAGEMENT, CUSTOMER FOCUS AND INNOVATION

An Awara Guide

JON HELLEVIG

EMPLOYEE ENGAGEMENT IN RUSSIA, A PREVIEW VERSION

HOW TO BUILD A CORPORATE CULTURE
OF ENGAGEMENT, CUSTOMER FOCUS AND INNOVATION

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ABOUT THE AUTHOR

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Jon Hellevig mounted his career in Russia at the inception of the nation's market reforms in the early 1990's. Hellevig gained experience with running organizations in Russia at an American-Russian joint venture SFAT, where he worked as a CFO and lawyer, and subsequently taking on the same duties for Armstrong World Industries (Central and East Europe). Hellevig is the founder and managing partner of Awara Group and the group's recruitment and executive search company, Awara Direct Search. He is also a member of the Board of AEB (Association of European Businesses), the most influential business association for foreign companies in Russia.

As Awara's Managing Partner, and in view of his solid experience with Russian business and Russian culture, Hellevig has acquired hands-on experience with Russian Human Resource Management. He is involved in organizational consulting and executive search with Awara Direct Search. Hellevig has also conducted extensive research on Human Resources Management theory, Corporate Culture, and social practices in Russia, and consequently written numerous articles and books on the topics.

As an inquisitive lawyer Hellevig developed an interest in the philosophy of law with the aim to answer the question: What is law? This was the inspiration behind his works, *Expressions* and *Interpretations* and *All is Art*. These books deal with the philosophy of law, social practices, and democratic competition. These interests further led him to deepen the studies of social practices, the fundamentals of human knowledge, and human behavior. Hellevig postulates that knowledge (or what is called so) is founded in social practices and in turn represents the individual interpretation of feelings in the context of social practices. The latter ideas form the premises for Hellevig's linguistic theories as expressed in *The Case Against Chomsky*.

Hellevig has earlier written *Avenir Guide to Russian Taxes* (2002, 2003, 2006 English and Russian editions); *Avenir Guide to Labor Laws* (2002, 2003, 2006 English and Russian editions); *Expressions and Interpretations*, a book on the philosophy of law and the development of Russian legal practices; *All is Art. On Social Practices and On Democratic Competition* (2007 English, 2009 Russian *Vse Tvorchestvo*); *The Case Against Chomsky - A Biological Philosophy Volume 1* (2010); and *Mental Processing – A Biological Philosophy Volume 2* (2010). Hellevig is active in public discussions of current affairs and social structure contributing with articles and commentary in the media. He regularly lectures at international seminars on topics within his specializations.

Before entering the Russian market, Hellevig gained experience at the Central Bank of Finland; the successor bank of present day Nordea; and the private bank which is now

called Mandatum – having been a co-founder of the latter. Jon Hellevig has a University degree in Law from the University of Helsinki, Finland (1985). In 1998 he acquired an MBA with the Ecole Nationale des Ponts et des Chaussees and University of Bristol Graduate School of International Business with KPMG European Training Center, 1998.

Jon Hellevig is multi-lingual with respect to the following 4 languages: English, Russian, Swedish (native) and Finnish (native); and also has knowledge of Spanish, French and German.

FOREWORD TO PREVIEW VERSION OF EMPLOYMENT ENGAGEMENT IN RUSSIA

This book on employee engagement in Russia builds on my experience of managing Russian organizations since 1990s and my studies of human behavior and social practices as expressed in my books: *Expressions and Interpretations*, *All is Art*, and the two books in the series of *A Biological Philosophy*: *The Case Against Noam Chomsky* and *Mental Processing*. I consider it a fully finalized book. Nevertheless, with the view to develop a further version of the book which will take into account the experience of the larger public, we have chosen to call it a *preview* version. For this purpose we have decided to publish this *preview* version as a free e-book to solicit the opinions of any reader. We will also actively distribute it to specialists who might be interested in the topic. As a special effort we will contact a host of CEOs and HRDs working for major foreign and locally owned firms in Russia. – Yes, we are *engaging* the public in this effort.

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EMPLOYEE ENGAGEMENT IS A KEY DRIVER OF MODERNIZATION AND INNOVATION

EMPLOYEE ENGAGEMENT, CUSTOMER FOCUS AND INNOVATION

This book is about employee engagement and how to implement it successfully in Russia. Employee engagement is about how to achieve a company's strategic goals by creating the conditions for human resources to thrive and, for each staff member, manager and executive to be fully switched on in their jobs so as to deliver their best efforts in the best interest of the business.

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Employee engagement is directly linked to the most important organizational principle, something that any kind of organization in all conditions and all times has wanted to implement: focus the attention on serving the external stakeholders, which in the case of a business are the customers first and foremost.

In recent years there has been a growing understanding among the Russian political leadership, most forcefully articulated by Dmitry Medvedev during his presidency, that Russia needs to modernize its economy and decrease its dependency on oil, gas and raw material export revenues by creating a diversified economy based on innovation and high technology.

Under Medvedev's leadership Russia has embarked on some impressive efforts to implement the modernization program, the flagship of which is the Skolkovo Innovation Center. Skolkovo represents an attempt to create the conditions for innovation and high technology ventures to thrive, as they have done in Silicon Valley in California.

But no amount of investment in special projects and technology - and not even science – will bring about modernization if the investments are not supported by favorable macro and micro cultures where innovations can blossom. The macro culture is the economic climate of the country, determined by its business, legal and administrative practices. The micro culture (or more properly, micro cultures) are the relevant corporate cultures of the firms tasked with innovation. Russia is in dire need of starting the modernization process by first modernizing these macro and micro cultures.

In its quest to develop an innovative economy Russia must first modernize its administrative culture and the corporate cultures of its enterprises.

Modern high-tech countries with vigorous innovative companies were not created or planned by politicians; rather they emerged as products of free societies where people are

not restricted in their attempts to find smart solutions for their own and their customers' needs. In the history of mankind, nobody has yet made an innovation that is not based on a previous application. The first condition for an innovation is therefore that there is an underlying need waiting to be satisfied. The second condition is that there is a profit to be made from innovatively satisfying the need. And the third condition is that there is freedom to do just that.

An individual firm, no matter how innovative it may be, cannot thrive either if there is not a macro-environment, a market that is hungry for new innovative solutions. The government of a country has to create the conditions for a proper market for innovative products and services. If there is no incentive for bringing inventions to the marketplace and no financing for it either, then no innovation will take place. The Soviet Union was a country full of inventions but totally lacking the conditions for innovation. It spent resources on inventions, but did not create any market value out of them. And in 1991, 74 years after the revolution the country, went bankrupt and was dissolved.

Business success, shareholder value and national wealth are created through corporate and public cultures that are capable of innovation and constantly adapt to change. The primary driver of both national economies and individual business enterprises is not, as it has been traditionally thought, capital accumulation, but innovation. More correctly we should say that innovation is what creates new capital, and that old capital without innovation will eventually fade away.

To succeed, the innovative business enterprises of this world have first adjusted their organization models to encourage innovation by cutting bureaucracy, red tape and hierarchy and introduced flexibility, low-barrier communication and efficient execution of decisions. A corresponding change has happened in the countries where these organizations are situated. Countries with less bureaucracy and fewer administrative barriers are those where more of the innovative business takes root. Dismantling the bureaucracy both creates and attracts the innovative business of tomorrow. In favorable conditions, innovation then follows from the competitive race to offer better quality to customers and to make a profit from that.

To adequately understand what innovation is, we should be wary of speaking in this context only of technologies. Innovation is not only about research and development (R&D) of new high-tech products. All firms, manufacturers and service providers need to be innovative in all their business practices. R&D forms, of course, an important part of innovative businesses, but rather than seeing it as the ultimate driver of innovation, we should recognize R&D as the tip of the iceberg of innovative cultures. Innovation in business means many things besides inventing new innovative, breakthrough products. New ideas on how to organize business and business processes are at least as important sources of innovation as technological inventions. Most importantly, in a dynamic

corporate culture that interacts with the market, new creative ideas about business processes meet with new creative technology. Most probably the needs of the business processes are what drive innovation in the final analysis. And innovative firms need to keep on innovating. When a product is rolled out, the firm already has to be thinking of how to improve it to guarantee continued customer satisfaction and stay ahead of the competition. This will not happen if the company does not run a corporate culture which directs all efforts toward continuous innovation.

More fundamentally than technology and R&D, innovation is about: efficiency, labor productivity, policy, organization, and other things. Innovation is a new way of doing something. It is about changes in thinking, about improved products, and more efficient processes. Innovation follows from the competitive race to offer better quality and make a profit, and therefore a great deal of the actual innovation is done by those implementing and using new technologies, products, and processes as part of their normal activities. The innovation itself is not necessarily a product or a whole new service; rather it is any useful adjustment or new idea that is incorporated in the production processes and service concept. We stress that we speak of a market driven creativity, for while creativity is a fundamental factor of innovation, it requires that there are market players (investors) that are eager to act on the creative ideas to attractively bring the product to the market so that customers are willing to pay for it more than it takes to produce it. An innovation is a creative idea that has been developed into a product and service and which is successfully implemented in a real business process. But while innovation starts with creative ideas it is not completed by them. The completion is a job for the whole corporate culture. All the factors of this innovative corporate culture add value by: constantly improved quality; creation of market demand; meeting the demand; individualization of the products and extension of the product range; increased productivity through reduction of costs; and improved production processes.

Thus I stress that an innovative economy is not only about inventing high-tech gadgets and machines, such as the mobile phone, Internet applications, nanotechnology, and so forth. It is highly useful and welcome government policy to invest in these fields to create awareness and set up beacons for the innovative economy and to give it a strong impetus. But most importantly, the government has to create the overall conditions for innovation in the country as a whole. This requires an open economy, freedom of choice, and liberty from a bureaucratic machine that would otherwise suffocate all efforts to modernize. A modern and innovative economy cannot be brought about solely by government fiat and the selection of priority sectors of the economy and heavy investment in research and development in the chosen fields. This is not to say that some palpable results could not be achieved this way, but the modernization efforts have to be aimed to cut deeper into the whole structure of economic culture of the state and the corporate cultures of firms.

By the very definition we cannot know from where future innovations will come. We cannot plan the behavior of the customers. Only by guaranteeing maximum freedom in a market economy can we send the process in the right direction. For this we need concentrated efforts by the government and each firm to embrace the model of the innovative corporate culture, cultures that are permeated by the spirit to deliver superb customer service and solutions as part of a profitable business. Constant innovation follows from such a corporate culture. The corporate culture seizes every opportunity for innovation thanks to a low level of bureaucracy, lack of hierarchical constraints, and efficient communication, coupled with the priority of offering superior solutions for clients.

The Russian economic climate is still burdened by a suffocating bureaucracy and red tape which hinders private initiative and innovation. Russia has leaped forward in the last two decades and the Soviet economy has been replaced with a market economy. But Russia is still not a fully modern country, and I maintain that it cannot become so without liberating the people from the last remnants of the communist system, the yoke (no joke) of the Soviet bureaucracy. Not enough has been done to reform the administrative system inherited from the Soviet Union. All the old bad habits are taken for granted: for example, laws are still modeled on the manner in which the administrative-command economy was run. Many good initiatives still come hampered by the Soviet mold of thinking. No matter how nice a reform idea we hear of from the mouth of a president or a minister, by the time the apparatus gets its hands on it they bring out their Soviet rule-kit. It seems they cannot make a single law without a huge effort to conceive of dozens of completely insane and useless mandatory procedures. All because that is what they have been raised to believe in. Because of this situation, nobody ever asks the questions: Do we need this? Do the country and the people benefit from this or that law?

The Russian leadership has to make strong efforts to change the macro culture, and fast. But it is up to each business owner and all the business leaders to press on to change the way their companies are run, that is, change their respective corporate cultures. Here also the Soviet command-and-control administrative practices are evident. There is a strong hierarchy with stultifying effects on initiative and innovation, and which devastates customer service. In a bureaucratic hierarchical organization, like most Russian organizations are, executives do not lead but micromanage. The organization delegates up and not down as it should. Employees preoccupied with bureaucratic procedures and structures are more concerned with satisfying the needs of their immediate boss than the customer. It is a culture of blame and an atmosphere of distrust reigns. The managers ask 'Who is guilty?' but rarely 'Who made this possible?' Punishments are easily meted out but gratitude is hard to come by. Risk-taking and initiative – the cornerstones of innovation - are punishable. Communication culture is dismal and bureaucratic, and there is always a risk that the messenger will be killed to avoid facing the brutal facts of the business. Bad financial and management reporting systems feed the culture of blame and distrust – and

no wonder, considering the dismal state of the reporting systems in a typical Russian firm. A consequence of all this is that corruption flourishes in the form of bribes and kickbacks, both in dealings with the authorities and between suppliers and customers. Often managers run their own private firms within the firm.

All this has to go. And the good news is it can be changed. Russian people are very flexible and enthusiastic workers when properly motivated. The problem with the dismal corporate cultures lies squarely with business owners and senior management, the executives who are supposed to be leaders but rarely fulfill this role. We see this because there are some truly outstanding corporate cultures in Russia, which you may experience as a customer. They exist while at the same time there are far too many examples to the contrary. The same Russian people work in the good and bad cultures! So what accounts for the difference? Management. In Russia you have the opportunity to see how true it is that the staff and customer service reflects the management practices of the firm like a mirror.

This book will tell how to make your image as a leader shine through the organization, how to create an outstanding corporate culture in Russia. This is done by creating a culture of engagement, customer focus, and innovation, employing the principles of employee engagement as explained here. The discussion involves ideas such as: leadership vs. management, empowerment, self-organization, the need to hire self-disciplined people, igniting the self-motivation inherent in self-disciplined people.

The corporate culture can be changed, and it is not even difficult. You might not want to go all the way with the principles I advocate. You may doubt that "it works in Russia." I can assure you, it certainly does, just like anywhere. And as the general level regrettably is so dismal, it is easy to reap early gains already at the onset of the change program by making little adjustments. A change in the right direction is already a good start.

You can do it, for you have access to the most important element that goes into the recipe of employee engagement – inherently enthusiastic and flexible Russian people.

THE ENERGETIC, ENTHUSIASTIC AND FLEXIBLE RUSSIAN WORKER

Foreigners who wish to do business in Russia often find themselves in a position where they have to confront and overcome certain misconceptions – both about Russian employees, and about the country itself. In fact, in some cases, these misconceptions are not merely distortions, but can be described as the exact opposite of the truth. Let us take a look at Russian workers in particular: the myths that have formed around them, and the reality that becomes apparent to those who make the effort to uncover it.

It is common for Westerners who have not visited Russia to have a quite distorted view of the country. These distortions are often rooted in Cold War-era antagonism, but one should also admit that the Soviet planned economy did create some real problems in the form of bad practices. Fuel was thrown on the fire during the years of transition in the 1990s when virtual anarchy reigned in the country. To make matters worse, today the mainstream Western press, with its mendacious and distorted reporting from Russia, is doing its best to keep alive the negative myths of what Russia and Russians are like, while at the same time creating a couple of new ones.

However, foreigners that actually visit Russia, and especially those who work here, usually learn quickly to see through the myths and distortion. Experience on the ground does not harmonize with the received picture. Granted, there are those who remain unable to penetrate through the superficial manifestations of what appear to be insurmountable differences in culture and practice. Many agree with me in the judgment that there seem to be two categories of expat coming to work in Russia: those who love it and those who cannot cope with it. Time tends to distinguish the two: the latter people usually pack and leave within a year or two, while the addicts (like this author) stay on.

A person who forms his views based on the distorted coverage in the press would find it hard to believe that foreign businesses in Russia are actually thriving and that the expat executives are usually full of praise for the opportunities, while realistically admitting (but not exaggerating) the challenges of working in such an environment. Notably, most of them are full of praise for the Russian worker.

One of the received myths which I often hear (from people who have never worked in Russia in a management position) is that Russian workers are lazy. Nothing could be further from the truth. Russians are extremely hard-working and dedicated employees. Similarly, I have not found Russians to be particularly prone to be late for work or meetings, as some people claim. At the same time, they are always eager to improve themselves.

For those of us in business, Russia often feels like one big educational organization. People devote much time to education and training outside of work. Many do a second higher education degree, and some even a third. An example of this thirst for self-

improvement is the teaching of English and other key foreign languages. While in the Soviet era, serious language learning was the province of a few, and the current school system is underfunded, young ambitious people learn English on their own, taking English courses on nights and weekends.

The attitude of Russians towards learning, and their positive interest in foreign cultures and languages, is markedly noticeable in how Russians grab every chance to speak English with foreigners. This happens in meetings with clients, in social gatherings, and in other settings. Nowhere, however, is it more marked than when getting served in cafes and restaurants. Immediately when the Russian waiter identifies you as a foreigner, he starts to address you in English, no matter how poorly he speaks it, or how well the foreigner speaks Russian. Admittedly, I personally find it annoying that they address me in English even when I talk to them in Russian. I am even frequently in situations where we go through an exchange of several rounds of statements where I persistently speak Russian and the waiter replies to me in English. At some point I ask if the Russian waiter does not speak Russian. I wish the managements would address this problem. From where I come, it is considered impolite and bad customer service not to respect the way a foreigner addresses you in your local language. But annoyed as I am, and persistent in not giving up, I understand that the Russian person does not mean to be impolite or rude; on the contrary for her or him it is a sign of respect towards the guest to address you in your own language (some seem to think that English is the native language of all foreigners) and also, which is my point here, the person wants to use the opportunity to practice his language skills. This also shows how Russian people are in general very eager to learn and liaise with foreign cultures.

Another myth states that Russians have a very low tolerance for change[1]. This is a hilarious statement considering that the social, political and economic system and practices – and even the cultural and gastronomical practices (half of the types of food Russians have in their fridges today were unknown to the population only 20 years ago) – have undergone radical changes two or three times in the last 20 years. The truth is that Russians are by nature very flexible, and form the ideal material for management to create a culture of engagement. As a worker, a Russian is like clay from which good management can form the very best product. The problem is simply that too few have tried to do so.

We now consider a myth that appears to have considerably more staying power, given its long cultural pedigree and support from high intellectual authorities, and from Russians themselves. This is the myth of Russian collectivism. Russian philosophers and political thinkers have seen this trait as ingrained in the Russian people; it is a belief that unites thinkers of seemingly opposite tendencies, such as Orthodox Christians and Communists. It

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[1] Tiri, Mirja: *Differences in Corporate Culture are reflected in Human Resources Management in Russia* (Finnish) in Henkilöstöhallinnon käsikirja 2012, Finnish-Russian Chamber of Commerce

is also believed by many ordinary Russians. However, it is founded on a false and tendentious historical analysis.

The origins of Russian collectivism are supposedly anchored in prehistoric times[2]. This is already a problem, as it assumes that Russia's prehistory was different from that of other European people– including the other Slavic peoples (who, being supposedly more individualistic, apparently lack this "prehistory" despite their common origins with the Russians), and other peoples living in a harsh natural environment, such as the Scandinavians. In the quoted source we read that "People trying to maintain their existence in a rather harsh environment needed to band together in order to survive." Therefore, we are told, they developed the *zadruga* - a clan or extended family commune - supposedly unique as a basis for Slavic tribal society. Further there was the *mir*, an agricultural village commune. The *sobornost,* the strong sense of community central to the Russian Orthodox Church, is quoted as yet another of the sources of the presumed collectivist traditions. The source I quoted forgot to mention the other side of the coin: serfdom, the system of unfree peasants being held under feudal dependency, which system was abolished only in 1861. This respite from an enforced "collectivism from above" turned out to be relatively brief, as Russian people were put under a different form of serfdom again after Lenin's Communist revolution of 1917. This time, they became serfs of the state.

Having no direct experience of pre-revolutionary Russia, I cannot accurately describe life in a *mir*. It makes sense to believe that it had strong elements of social cooperation, as well as the practices and customs of the Orthodox Church. That, however, is not *collectivism*, at least not in the meaning it is assigned in the myth of "Russian collectivism." The *mir* was in fact a system of free and independent people negotiating on common issues in the interest of each person, from which the collective interest followed. But the serfs, and later the Soviet citizens, lived in a forced collective. It was not a voluntary collective of free individuals. When it comes to examples of "idyllic" communal life, I hope nobody mentions the *kolkhoz* (collective farm) and *kommunalka* (the communal apartment where many families were forced to live together, sharing the kitchen, bathroom, and corridors, while the entire family lived in one of the adjoining rooms). Probably no institutions have contributed more to the Russian aversion to collectivism than these two.

The whole communist state represented a most unnatural way of living together in a system that was totally different from what it was called. It was, in effect, a system of institutionalized cognitive dissonance. In fact the Soviet system destroyed any form of true collectivism or collective initiative. All normal social interactions based on social traditions from the past were destroyed or degraded. Any form of voluntary, spontaneous

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[2] Chapman, Steven R.: "Collectivism in the Russian World View and Its Implications for Christian Ministry" in *East West Church and Ministry Report*, Vol. 6, No. 4, Fall 1998

collective action – whether it involved reading poetry, worshiping God, or playing jazz music – ran the risk of bringing down the state's wrath. Religion, for centuries the basis for most people's customs and habits, withered under a sustained assault that lasted decades. Even Soviet wedding ceremonies, which replaced religious symbolism with images of Lenin and the hammer and sickle, proclaimed the supremacy of state power in all aspects of life. Under such circumstances, people learned that they could only count on their own cunning and on small networks of trusted people to try to survive the best they could in that system of faux collectivism.

And the history of forging the Communist Russia and keeping it together is certainly not any testimony to Russian collectivism. Soviet Communism was established through a long and bloody civil war, followed by years of repression, first under Lenin and then under Stalin. There was too much individualism that needed to be extinguished in order to create the impression of collectivism. One might also cite the experience of Russian emigrants to foreign countries, who certainly do not seem to suffer from any deficit of individualism in their new environments.

So whatever prerevolutionary traditions existed, Russians of today are - for good or bad – distinctly individualistic in nature. Therefore, I adhere to an opinion which appears paradoxical at first sight: that Russians need a democratic form of government (which has been progressing rapidly since 1991) and corporate cultures based on engagement and self-organization. The paradox here is that it is, contrary to the received prejudice, precisely the hierarchical and bureaucratic organization that does not work. Russians are by nature too inquisitive and curious to know the big picture to which their tasks relate – too creative, if you will - so that when this is denied, as happens in the typical badly managed organizations of today, people will not be properly motivated to do their best. They will not be fully on board with tasks in which they don't feel a personal stake. But that is really nothing new; it is in accordance with the global theory of engagement. Indeed, the *mir* was not a hierarchical bureaucracy; on the contrary, it was a form of self-organization. And so were the cooperatives called *artels*, which the peasants formed when they began to move to cities.

Hierarchical bureaucracies don't work anywhere in the world, and Russia is no exception. We who live here have ample opportunity to verify this with our own eyes on a daily basis. In my personal experience, and from my understanding of history, Russians cannot fundamentally be coerced into any kind of desired behavior. Rather, they have to be convinced of your point, won over by participative argumentation. In terms of corporate culture, this means that they have to be engaged and won over to work for the good of the organization by the principles of employee engagement.

The difficulty here lies in the fact that so many people are immersed in the bad practices of the past. Therefore when you tell your leading committee that you want to introduce

employee engagement, you will meet a lot of resistance. But you will have to convince them, and if you cannot do so, you should let the unconvinced ones go.

EMPLOYMENT ENGAGEMENT IN RUSSIA OFFERS HUGE OPPORTUNITIES

Due to the transition from the Soviet planned economy, today's Russia is full of paradoxes. Here you can find the most stellar examples of how things should be done properly, while at the same time encountering examples warning how not to do them. One finds this in many spheres of life, and organizational culture is no exception. Russia is full of enthusiastic, conscientious and creative people that make for excellent workers in any organization. And we who live and work in Russia see how well-managed companies have succeeded in capturing this energy in surpassing organizations. But at the same time one still finds here organizations that serve as antitheses of a modern culture of engagement. These old-school organizations are still guided by the bureaucratic and militaristic management principles of the command-and-control economy. I will here outline some of the characteristics of such organizations which demonstrate all the worst parts of the Soviet administrative culture without embracing any of the best parts of modern Russia.

When I compare the well-managed organizations of the new Russia with the old-school depressing Soviet organizations, I cannot help but think that the organization really is a mirror of the management. Out of Russian people you can create the best organizations in the world – as I am fortunate to know from my own experience – but also some of the worst imaginable. The yawning difference in quality between the worst and the best can be attributed to one thing: leadership.

In Russia organizational behavior is still largely informed by the administrative command system of the Soviet Union. Soviet management styles, together with outdated rules and regulations, obstruct efforts to modernize business processes. If Russia wants to create innovative companies that can compete on the global scene, then its companies must start by renewing their organizational cultures, let go of the old models of bureaucracy and hierarchy, and focus on creating a culture of engagement.

Typically a Russian firm is organized in old-fashioned inflexible hierarchies where bureaucratic structures create barriers to empowerment, improved customer service, and innovation. The problem with bureaucracy is twofold in Russia. From one side it is present in the form of the bureaucratic system of public administration, but from the other side it is present in the form of the bureaucratic model of social interactions between people, which weighs heavily on all social and business practices. This bureaucratic model has permeated the corporate cultures in Russian firms, making them top-heavy in administration and unfit to operate in a modern competitive economy where a company has to continuously focus on customer satisfaction, find new innovative solutions and adapt to change. The bureaucratic model prevents companies from recognizing that any business should be organized around a sole overarching cause, that of dedicating all its efforts to profitably serve customer needs.

In such a setting the organization delegates up and not down as it should, and as a consequence the executives don't lead; rather, they micromanage. In a typical Russian organization, employees are not empowered, but assigned highly specialized functions and given narrowly defined jobs. The communication culture is secretive and inefficient. There reigns an atmosphere of distrust and a culture of blame. Most people are preoccupied with internal politics and protecting their own turf. Bad reporting systems make things worse. Officially the culture is risk averse and avoids uncertainty at any cost. Risk-taking and innovating thinking is punished. This while individual managers take their own private illicit risks collecting and giving bribes and kickbacks, and sometimes run their own enterprises using the assets of the firm.

I have collected in *table 1* a list of observations which, according to my experience, characterizes a Russian organization from the old command-economy school.

TABLE 1: Hang-Over Factors from Soviet Management Style

1. Organizations are extremely hierarchical, but executives don't respect organizational subordination – CEO views the organization on the principle "Me and my thousand helpers"
2. Executives do not lead but micromanage
3. The organization delegates up and not down as it should
4. Employees are not empowered but assigned highly specialized functions (narrowly defined jobs).
5. There is an atmosphere of distrust. Preoccupation with internal politics. Protection of turf instead of teamwork.
6. Customer focus is lost. Organization worried more about reactions of management than customer satisfaction.
7. Organizations preoccupied with bureaucratic procedures and structures
8. A culture of blame. The managers ask "Who is guilty?" but rarely "Who made this possible?"
9. Risk-taking is punished, "initiative is punishable"
10. Communication culture is dismal and bureaucratic, "killing the messenger"
11. Bad reporting systems feed culture of blame and distrust – and reason to distrust!
12. Corruption flourishes (bribes, kickbacks). Often managers run their own firms within firms.
13. The principles of trust, respect and fairness are not widely honored – punishments are easily meted out but gratitude is hard to come by

These are only some of the problems that the Russian corporate culture is riddled with. Therefore it is a formidable challenge to any business leader in Russia to cure the corporate culture of the old ills and put in place a winning, modern corporate culture. But this challenge also represents an opportunity, for systematic investment of time and resources in building the desired corporate culture usually yields extraordinary results in

the form of return on investment considering the dire state of contemporary management, but also the huge capacity of the employees and the flexible environment of today's Russia.

The influx of international corporations into Russia after the fall of the Soviet Union has had an enormously positive effect on developing the local corporate cultures. Many of the foreign firms have served as formidable standards of best practices, which little by little trickle down to the country at large. One of the pioneers in this respect was McDonalds which, to my mind, has done more than any university to teach good management practices to Russians, both those who have worked and learned at the firm and customers who have the opportunity to see how a well-managed firm is run.

Judging from my experience of 20 years in management and HR in Russia, Russians prefer to work in a foreign-owned company, precisely for all those reasons that I list in this book as drivers of engagement and corporate culture. I have in mind here most educated young Russians, the kind of people that form the material for a culture of engagement.

Of course, I need to qualify this statement, by pointing out that there are horrible examples of corporate cultures in foreign-owned firms as well. And we should also keep in mind that we can naturally not suppose that all "foreign-owned companies" form a homogenous group so as to juxtapose those with Russians. I therefore stress that I make here a generalization between what I see as typical traits in multinational corporations stemming from the West and the general level of Russian owned corporations.

I also need to make another qualification concerning individual managers or executives. There are good and awful individuals among them all, but generally in well-run Western owned companies, the relative harm done by one awful individual is mitigated by the very corporate culture.

HOW RUSSIA ENGAGED ME

When I first came to Russia, I felt as if I had walked right into an underground-style black and white movie. I was in the movie but did not belong to it. Everything seemed so different from what I was used to. The movie was populated by a strange cast of personalities that surprised me at every corner. Watching TV confirmed that the country was to a large degree ruled by the same personalities. That was in 1991, and I think it took at least a couple of years before I more or less shook off this feeling of witnessing a strange way of life. I realized that I had adapted when after a couple of years the babushkas would stop me on the street and ask for directions or advice.

I am not saying that I condemned what I saw, although a lot of it I did. Mostly, I was just fascinated by it, as if I were watching one of the quirky, absurdist movies of my compatriot Aki Kaurismäki. And my perception was blurred by a whirlwind of often contradictory impressions as I was trying to make out what kind of country this was and what kind of people these Russians were. For a start, coming from Finland I was imbued with the stereotypes nourished by Western propaganda. I was convinced that Russia was a country of military discipline where people marched to the tune of the police. So you can imagine my surprise when I became aware of the total lack of order and respect for rules. My first independent insight to the Russian soul really was the realization that Russians were incredibly individualistic and freedom-loving. And I liked that. I do, however, admit that it was an excess of this individualistic behavior that put the country through a lot of trouble in the years of anarchy in the 1990s. But some of the prejudice or stories I heard proved true. I could even experience in person one of the jokes about Soviet society. Mind you, this was in 1991, during the worst consumer crisis caused by Gorbachev's perestroika policies. The joke was about the shortages that plagued the Soviet planned economy. In this story a group of Western tourists visited Moscow and a tour guide took them around to the shopping venues. At the first store all what the tourists saw were empty shelves, and one asked the guide "What kind of shop is this?" The guide answered that it was a grocery store. In the next store the same empty shelves; and the guide said it was an electronics shop. And so on from one store to another, until they finally came to a store which did not have any empty shelves, because it didn't have any shelves at all, only blank walls. The tourist asks, "Then what kind of shop is this?" "Oh, this is a furniture store which specialized in shelves."

What I experienced in the Moscow stores was too much in accordance with this anecdote for comfort. There was practically nothing to buy and people would walk around with empty "just-in-case" bags (as they called them), ready to stuff them with anything that might suddenly come on sale. I, too, would have to stand in lines for one or another commodity, and when last in line, I was frequently approached by passersby who would inquire what could be bought at the front of the line.

Odd exceptions to the endless shortages were the fancy flowers with cellophane wrappings you could find at every metro station. I later learned that the availability of the flowers was due to the fact that this trade had been already liberalized, while almost all other forms of economic activity were still regulated by Gorbachev.

One of my weirdest experiences was when I ventured to dine at one of the few restaurants in town, one at the Moscow Hotel by the Manezh Square. When I approached the entrance I was stopped by a stern-looking guard who barked out in a commanding voice: "What do you want!" I was taken aback by this reproach and, disconcerted, retreated a bit and timidly confessed that I was contemplating eating in the restaurant. After a few inquiries I managed to convince the porter that I was a presumptive customer. He then unceremoniously commanded me to wait at the door and disappeared behind it. After a while he returned with somebody that looked like the maître d'hôtel. This person was much more customer-oriented, and told me he had learned about my desire to eat. But he let me know that the restaurant was quite full now and it would be hard to arrange a seating. He then asked me to wait while he ran up the stairs to the big dining hall. After a few minutes he reappeared. He continued negotiating the terms of this complex business deal with me and ran up the stairs again. After a round of three or four runs up and down to the dining hall, we inked the deal. The maître d'hôtel had found a seat for me, and it would be an all-inclusive night considering the money I had paid upfront to him at the entrance. I was finally let into the vestibule and then I solemnly walked up the stairs to the grand dining hall. I must say that I really regret that the building was later torn down (and replaced with one which merely replicates the façade), for the dining hall was really impressive: a bit worn out but with an unmistakable aura of pompous Soviet architecture in one of its better incarnations. For some reason, though, I was not much surprised to find the dining hall almost empty.

Then came the menu. Naively, I began actually to study it – although one of the jokes should have warned me against that, too. I was inquiring what this or that item would look like, how it was cooked, and other innocent questions. But the reply was invariably that the item was not available. I finally understood that I had to turn the question around and ask what *was* available: stolichnaya salad, cold cut fish platter, "biffsteaks" (as it was called in the Soviet Union), and Chicken Kiev, washed down with vodka, Soviet champagne and Pepsi (the kind where the sticker logo was always plastered in any conceivable position on the bottle). But the meal was enjoyable.

Next time when I ventured back to this restaurant, I had learned from my experience. When asked by the grim-faced guard what I wanted, I cut him short and parried him: "What kind of place is this?" The guard was surprised by such an unprecedented question and did not seem to understand it at all. I repeated it three times until he finally replied that it was a restaurant. Now imagine my satisfaction when I could throw in his face the retort: "If this is a restaurant, then what would you imagine I was coming for?" And I was now also

prepared when I entered a bank where the guard, this time with a Kalashnikov assault rifle in hands, greeted me with the same obtrusive question.

Restaurants were always an experience at that time and I treasure many a fond memory of them. Like the one which published its prices in rubles but insisted that foreigners had to pay the same amount in US dollars. Once I saw a decent-looking young couple, aged around 25 or so, on a date washing down their meal with warm vodka, which they drank from water-glasses filled, and refilled, up to the brim. And in one I was offered a shot of German Kiwi liquor with my starter soup. This was when all the foreign influences suddenly invaded Russia and people had not yet figured out the intricate details of Western habits.

Security, or the appearance of security, controls and restrictions, was very much the obsession of Russian organizations of that time. It still is. Whenever you wanted to enter an office or administrative building or a special territory, you needed the "Propusk," an entrance pass. Usually anybody could obtain such a permit with a little pleading, but it was an unpleasant bureaucratic hassle wrangling with people at the "bureau propuskov," who did all they could to uphold their sense of pride based on controlling who gets in or not. My most memorable experience with the propusk was when I wanted to visit the Easter church service. On television they told that the main Easter mass was being held at Yelokhovsky Cathedral and that President Yeltsin was going to attend it. I thought it would be interesting to experience the golden feeling of an Orthodox mass, with its striking colors, the scent of the burning candles, and the intriguing chants and music. And I would also have a chance to see the president there. So at night I headed for the church. I checked the location in a tour guide and took the metro to the nearest station. When I surfaced from under ground, I saw the church in the distance and headed towards it. Then I saw a police cordon. The road to the church was blocked. I walked up to the police line and asked an officer what this was for and how I could access the church. The policeman informed me that he could only let through invitees with a valid propusk. I was disappointed; coming from Finland I had not expected that one would need permission to enter a church. I turned back towards the metro, but after taking just a few steps back the guard called me. He asked where I was from and I told him I was from Finland. To my surprise he said: "From Finland, then you can pass."

Now I felt good to be from Finland, and joyfully headed further towards the church. I saw that approaching the church most people turned right but a few followed a smaller path to the left. I decided to choose the left path. Around the corner there was a small queue. I advanced a little in the queue and noticed that people were showing some identification cards. It was again the propusk, I realized. Having nothing on paper, I decided to use the same pass I was given by the police, that is, the recognition "I am from Finland." The line was small and soon only 5 people were in front of me, but then I noticed that at the entrance, flanked by younger security personnel, stood the Russian Minister of the Interior,

Mr. Barannikov. Now I got worried about the validity of my oral propusk and the fact that I had got so far with it. Frankly, I felt a creeping feeling of danger. I was in the former Soviet Union, the country that had been named the "evil empire" by the president of the United States, and portrayed in the West as an inhuman KGB-run machine. And in front of me, the head of it all, a minister of the interior, who had all the appearance of a person that could inspire fear in a Finn like me standing without a valid entrance pass at the VIP entrance to a church. By then it was too late to panic and I had learned in life to stay cool. So I did not panic. But I was thinking how to get myself out of the situation. I couldn't just turn around, that would arouse suspicion. What would they think about me? Maybe they would assume I was not there in good faith (sic!). How had I avoided the earlier checkpoints? In any case I decided not to lie; I had to stick to the truth. Soon there were only two persons in front of me. A lady put a hand in her purse and, as if it were the most normal thing in the world, flashed her propusk and identification. One more person showing his credentials and then it was my turn. I sensed the examining gaze of the Interior Minister penetrating me. The end was near. "Maybe they would just deport me," I consoled myself. Now the young security guard dressed in a neat civil suit looked at me, in a surprisingly friendly manner. He asked for my documents. I showed my passport. "Propusk," he said, using the magic word. "I don't have one," I admitted, looking him firmly in the eyes. "On whose invitation do you come, the embassy's?" he asked. The Finnish embassy sounded like a good choice, but I decided it was better to stick to the truth. "The officials of the Russian Orthodox church?" he suggested. "No, not them," I replied, with some hesitation. He gave me two more choices which I turned down, and then he finally said: "Then who invited you for, for you must have an invitation?" I suddenly realized that I had one: This was a church, a Christian church, a branch of the religion in which I had been baptized. I knew I had found my invitation, my pass to entrance. I replied "God invited me." He looked up at me. I was surprised because he was not surprised. In Finland even the religious would have thought I were nuts; on the other hand, I knew I was right. If there are churches and there are religions, then it is the God of the religion that invites you to the church. This much was clear to me. I saw the security officer going through his mental records, and then he delivered his verdict: "Visitors with those invitations are supposed to use the main gate around the corner."

I was relieved, thanked him and threw a glance at the Interior Minister, turned around and went towards the main gate. At the main gate, I was again asked for my entrance pass. But I felt secure now: I just said that I had been sent from the other gate. And I was let in. This process of entering the house of God in the center of Moscow in 1992 was so telling an adventure. All of post-Soviet Russia and the role of a foreigner in it were concentrated in these moments: the restrictions, the fear, the gap between cultures, the suspiciousness, the humility and humanity, the truth, and the value of truth.

I had first come to Russia with the view of establishing my own consultancy here, but I soon noticed that in the prevailing business climate I would not be able to consult anybody, even myself. Thus I decided that I had to take up employment and learn the Russian laws and business practices before I would venture to consult other people. I landed a job in a joint venture firm between an American and Finnish corporation and the Russian Ministry of Railways. The Ministry of Railways was a huge structure which in Soviet times had employed 3 million people (so I was told), and although the JV I worked for had only a staff of 150, it was permeated by the culture and practices of the massive Soviet ministry. (Only when I later joined a big American corporation did I experience something similar, but with a softer touch on the surface.) I was the CFO and also in charge of legal matters, and the only expat on ground until later, when I was able to hire some assistants from Finland. The business culture was a huge shock for me, with its culture of fear and the bureaucratic practices that penetrated all aspects of the work. I was going to say that the organizational structure was hierarchical but that would not be true at all, although one might first perceive it as such. In fact the organization was as flat as could be: there was the CEO and his thousand helpers (in this case more correctly, his 150 helpers). The CEO was micromanaging every aspect of the work and did not respect the principles of subordination at any level, personally assigning tasks, demanding reports, and giving detailed instructions to all of the 150 staff members. I was one of 5 or so vice-presidents who belonged to the executive committee (sort of). The meetings of the executive committee were designed as sessions where the CEO either gave his weekly monologue, vaguely connected with business matters and full of crude street philosophy, or as public verbal executions of one of the vice-presidents or any other person in the organization who happened to have fallen victim to his caprice of that day. There was an elaborate system of punishments based on the fact that more than 60% of the salary was designed as a so-called "currency premium" which could be withheld at will. Thus any kind of omission or perceived omission could lead to the punishment of being deprived of more than half of one's monthly salary. I remember that once in a while the CEO organized a razzia at the front door at 9.00 AM to monitor if people showed up at work in time. Those who were late even by one minute would lose all or half of the currency premium.

It is no exaggeration to say that this was a culture of fear and blame. But I have to admit that there was also another side to the story. I partially adapted to this culture myself in the sense that I took over some of the behavioral patterns of the CEO; I thought they were needed in the business culture of Russia in those years, and to some degree still are today. A dose of that style was appropriate; I just wish our CEO had struck a better balance in that. He did a great job with the JV and took it to great heights. He was surely running one of the best firms in Russia in the early 1990s. He was also a wonderful person in his private life, a good entertainer, with sharp philosophical insights, hardworking, creative and successful. One of the monologues I enjoyed in particular was when he had invited the two young tax inspectors who were in the process of auditing for "a chat" to his office. As

the CFO, I had been invited in order for me to learn how correctly to treat the tax inspection. At that time tax laws and practices were a total mess and the taxpayer was left to the arbitrary mercy of the inspector. For tax audits young incompetent tax inspectors showed up with the sole purpose of finding, or inventing, fault so as to fine the company millions. Our guy would not put up with this. So I witnessed a theatrical monologue featuring the teachings of Nietzsche, the Bible, Russian writers, the virtues of hard work, and how SFAT was the most honest firm in Russia – "so keep your silly fingers off our firm!" It worked. We never had any problem with this tax inspection.

As we will see in this book, a lot of problems remain in terms of organizational culture, but in the last 20 years a lot has changed. There is color in the movie. Moscow can now offer culinary sensations from all over the world with a great variety of restaurants for all tastes. There is a real consumer market and a lot of firms that really want to serve their customers. In this environment I have myself been able to create a corporate culture in Awara, the firm I co-own and work in, based on the best principles presented in this book. We run a self-organization populated by self-disciplined and self-motivated people. We are truly a non-hierarchical low-bureaucracy organization based on the principles of managing by projects, where virtual teams have replaced hierarchy and matrix. We have thus in Russia been able to create the organization of the future in Russia, while it still remains a rarity in the West. Personally I have adapted my working style and life style to the possibilities offered by this organization. I don't have a cabinet in the office. I don't even have a dedicated seat. I just sit at any of the desks that happen to be free when I visit the office. Really, *visit* is the right word, because I come to the office only for meetings, for external and internal scheduled meetings. Apart from that, I work at home or in cafés and restaurants. As a managing partner for a consulting firm, I have to read and write a lot – like I am doing writing this book. And how could I possibly do that if I had to sit in the office in order to manage people in the traditional way. I can also take my work with me to a foreign country, to spend, for example, the harsh winter months in sunny Brazil, when I am working for the firm in Russia.

CHAPTER 2

WHAT EMPLOYEE ENGAGEMENT IS

AND WHY IT MATTERS

EMPLOYEE ENGAGEMENT – WHAT IT IS AND WHY IT MATTERS

In the last few years, the management theory of employee engagement has gained increasing recognition. This theory tackles the question of how a company can achieve its strategic goals by creating the conditions for human resources to thrive and for each staff member, manager, and executive to eagerly deliver their best efforts in the best interest of the business.

The theory makes so much common sense that it is even difficult to define it. In fact the difficulties here are entirely caused by the past history of failed practices and wrong theories in the field of organizational management. With employee engagement theoreticians and best practices have finally caught up with reality.

Briefly, according to the theory, the leaders of an organization have to ensure that all staff members function at their highest capacity in their jobs: that they are fully "switched on," we might say, bringing not just their body to the job, but their minds also. That they are fully committed to and involved in the work the same way an entrepreneur would care for her business or the way one cares for one's own household. This is called *being engaged*: being fully involved with great interest in an activity that really holds one's attention and in which one has an urge to do one's best.

This really is common sense. Which employer would not want its workers to be switched on at work? So what do we need the theory for? We need the theory as a tool to demolish the bad management practices rooted in hundreds (if not thousands) of years of mismanagement. The fact is that very few employees are fully engaged in their work, and few leaders know how to go about changing that. According to studies conducted in the UK only 12% of the work force (in any company on average) are actively engaged, while the European average is slightly less yet[3]. But even so, that figure is based on employees' own assessments, how the employees judge their own level of engagement, and one would suppose that such self-assessment is informed by the human propensity to inflate one's own contribution. According to the same study 65% consider that they are "moderately engaged," which means that they rationally care for the job but they don't bring their whole emotional capacity into it. Another result confirms this conclusion telling that more than half of employees feel that they are actually not giving their best, whereas only 40% on self-assessment said they did[4]. And according to the consulting firm BlessingWhite only 31% of employees are actively engaged at their work[5]. Imagine how a football team would fare if only 12% of the players were actually engaged in the game and the rest had their minds on their next vacation, their upcoming dinner date, or some jokes they had read on the Internet. The thing is that successful sports teams have always been

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[3] Towers Perrin, European Talent Survey, 2004
[4] Macleod, Brady: The Extra Mile. 2008. Prentice Hall.
[5] BlessingWhite (December 2010). Employee Engagement Report 2011. http://www.blessingwhite.com/eee_report.asp. Retrieved 2010-12-12

driven by the principles of engagement even if the concept might not have been explicitly spelled out.

A theory, or a concept, serves two functions: firstly, as a symbol to make us aware of a new way of thinking of something. (Intuitively we have always known that an engaged workforce will outperform a passive one. The new theory makes us aware of what we have always intuitively known.) And secondly, to provide advice on how to achieve the ideal state promulgated by the theory. In regard to employee engagement, I think that the first function is already hugely valuable - once you start thinking about this you will find means to achieve it. But employee engagement is also about charting the course that the leadership should take in order to fully engage all the staff members in the business of the firm, or as it is popular to say nowadays: provide a road map for engagement. In my view this culminates in creating a *corporate culture of engagement*, or an engaging culture, which will serve as a perpetual automatic means of sustaining engagement on all levels of the organization. I will venture to tell in this book how this is done.

I am not a big fan of definitions but if they are not too rigid, a definition may serve as a guideline for thinking about the underlying idea. Thus, I would define *employee engagement* like this:

> Employee engagement is about striving to ensure that each employee fully cares for his job, the company he works for, and its customers, and ensuring that the employee is always committed to do his best in these respects. This will be manifest in the way the employee shows proactive enthusiasm for the job and takes ownership of his tasks. Employee engagement is a two-way street, a reciprocal relationship of trust and respect between employer and employee. To bring about engagement the employer (executives and managers) must clearly and extensively communicate and show what is expected from the employee and coworkers, empower the employees within the level of each one's competence, as well as create the working environment and the kind of corporate culture in which engagement will thrive.

Or more briefly we can say:

> Employee engagement is about how to achieve a company's strategic goals by creating the conditions for human resources to thrive and for each staff member, manager and executive to eagerly deliver his best efforts in the best interest of the business.

There has been a host of management theories that are easily confused with employee engagement on a superficial level. Among these: the theory that the employer must ensure the employee's happiness at work or *job satisfaction* (especially popular since the 1970s); employee *commitment* (fashionable since the 1980s); and employee *empowerment* (in vogue since the 1990s). These are all connected also with the idea of *motivation*. I would

not say that these theories are necessarily wrong, but that it is better to think of them as deficient and misleading when applied on a stand-alone basis beyond the teachings of employee engagement. But by merging them all into a unified whole with the addition of some other cardinal new insights into management, they add up to the proper engagement theory. Below I will briefly discuss these predecessor theories.

ENGAGEMENT vs. JOB SATISFACTION

In a discussion with people not previously familiar with the concept of employee engagement, they initially associate the concept with the management theory popular with progressive companies especially in the 1980s and 1990s, according to which employers should guarantee an employee's *job satisfaction*. The idea was that the happier people are within their jobs, the better they perform. Engagement specialists agree with me in thinking that this was a misguided theory. The problem is that the theory set out a one-way street, where the contributions towards the employee's satisfaction were coming from the employer, while there were no clear pronouncements as to what was expected from the employee in return. The problem was aggravated by the habit of doing employee job satisfaction surveys with the idea that the higher the level of employee satisfaction the surveys evidenced, the better the management was. The extreme consequence of this was that management was tempted to "bribe" the employees, that is, buy their satisfaction with unwarranted benefits, perks and a theme park job environment, while not adequately demanding that they reciprocate the contribution. Now it is increasingly recognized that satisfaction per se does not lead to better job performance; on the contrary, it is quite conceivable that an employee is satisfied with his job precisely for the reason that it, for example, gives a decent salary, good benefits, a nice environment, whereas the employee will be able to concentrate his time and energy on other things that matter more beyond the work, things with which he is more truly engaged. Satisfaction may mean contentment and actually contradict the need to challenge the status quo and be innovative, which is precisely what is expected from an engaged employee. Satisfaction does not capture the aspects of urgency, focus, and intensity which are essential to true engagement[6].

The job satisfaction surveys are based on an inherent logical contradiction or confusion as to cause and effect. There is the classical problem of whether the chicken or the egg comes first. Are companies with satisfied employees successful because they have invested in the satisfaction of the employees, or do employees report satisfaction because the successful company has in reality intuitively been running engagement policies? And how do we know if the success has come from job satisfaction policies or from something else, perhaps the success has other reasons and the profitability of the company has only allowed it to share the benefits with employees. (Of course, that is nice, too.)

Job satisfaction is also a question of comparatives. A person can report job satisfaction for various reasons, most of which remain unconscious. And we always need to keep in mind the human propensity to be dissatisfied with one's lot.

One more problem with job satisfaction surveys is that they are exclusively designed to ask the employees how satisfied they are with their jobs, and by consequence with their management and employers. But I think it would be equally relevant to ask managers (on

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[6] Macey, Schneider, Barbera and Young: Employee Engagement. 2009. Wiley-Blackwell

various levels) about their satisfaction with the employees. This would already put us on the two-way street.

ENGAGEMENT vs. COMMITMENT

Until recently when engagement theory gained recognition, progressive leaders and HR people spoke about *employee commitment*. And now the specialists debate what the difference in these two management paradigms is, if any. Some claim that they are different terms for the same thing, but I think that these theories are distinct. We could say that engagement represents a higher evolutionary stage of commitment, being a more refined and complete theory.

Here I need to point out that I am not one for parsing over concepts, and all the more not one to think that a certain concept inherently means one thing or another. But what I want to point out is that, as I have understood it, the commitment theory is lacking certain key elements present in engagement theory and contains other elements that don't go in the right direction.

In my view *commitment* theory is more based on compulsion, on creating such conditions that the employee will feel compelled to work for the organization, whereas *engagement* theory aims to bring about a situation where the employee by free choice has an intrinsic desire to work in the best interests of the organization. While characterizing commitment as one-sided compulsion, we could say that engagement is reciprocal; both employer and employee engage. Somewhat simplifying we could also say that in commitment the person is rational about her commitment, she weighs pros and cons; whereas in engagement the person makes a personal choice, not because his calculations show so but because he wants to. It is a more emotional choice. Management guided by commitment theory also wants to bring about the emotional bond, but contrary to engagement theory, it is done by trying to make the employee feel that he owes something to the company for past favors; or by binding people with spectacular salaries, or an even more popular form of temptation, stock options and other incentive programs. The problem with all these methods is that they might well work in terms of succeeding to retain the people. But...will the people thus retained be really engaged to make the best efforts for the company? I doubt it.

We could also understand *engagement* as the behaviors of commitment plus the intrinsic motivations of engagement.

An analysis of Meyer and Allen's three-component model of commitment helps to differentiate between these two theories[7]. These scholars divided commitment into three component categories: affective commitment, continuance commitment, and normative commitment. The two later components point to the compulsion character of commitment.

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[7] Meyer, JP and Allen, NJ (1991). A three-component conceptualization of organizational commitment: Some methodological considerations, *Human Resource Management Review*, 1, pp. 61-98

Continuance commitment is said to be based on the deliberations of the gains versus losses of working for an organization. In this thinking the person remains in the organization if the perceived cost of leaving it would be higher than the benefits of staying. Naturally all the factors that go into the calculations are not directly measurable in money, and include, for example, questions of status, or of one's membership in a community, and so forth.

Normative commitment is about the person's perceived or real feelings of obligation to stay with an organization because of a sense of obligation.

Normative commitment is about the persons perceived or real feelings of obligation to stay with an organization because of feelings of obligation.

According to proper engagement theory management would not try artificially to bring about continuance and normative commitment, but the remaining component, affective commitment, is more suitable for the engagement paradigm. It is defined as the employee's positive emotional attachment to the organization, the "desire" component of organizational commitment. In this case, an employee is said to strongly identify with the goals of the organization and desires to remain a part of the organization because she wants to.

ENGAGEMENT vs. EMPOWEREMENT

Engagement differs also from another management concept which has been popular in the last two decades, *empowerment.* Empowerment is the idea that you have to endow your employees with authority to make business decisions. It is certainly very important to empower your employees to take decisions within the scope of their tasks, and in this sense empowerment is an important feature of engagement. But the problem is that empowerment does not make sense and it is not properly enforceable without considering all the other aspects of employee engagement. You may properly empower only employees who are adequately engaged. One important aspect of the question is that you also need to have the right people on board; you cannot empower just anybody. And most importantly you need to back up empowerment with a corporate culture that operates on the principles of engagement. A culture of self-disciplined and self-organizing people is needed to establish the right levels of empowerment for different levels of job duties and competence.

ENGAGEMENT vs. MOTIVATION

Engagement is about motivation. But here we need to turn around the question from as the traditional understanding of motivation. The Merriam-Webster defines "motivation" either as "the act or process of motivating" or "the condition of being motivated." It is typical that in a context of management theory people refer to motivation in the sense of "the act or process of motivating," with the stick and carrot mentality of how to propel an employee to act in a desired way. But in engagement theory we mean the other sense of the concept "the condition of being motivated," that is, the task of management is to bring about such conditions that the employee feels intrinsically motivated, or self-motivated as I like to call it. The motivating force has to be internalized so that the drive to do one's best comes from the inside and not by external pressure (positive or negative) and control by management.

Guided by the traditional usage of the concept, employers were racking their brains in order to devise attractive new ways to externally motivate their employees. What comes to mind most easily in this vein of thinking is salary, salary, and more salary, and pay in form of bonuses, or other incentives such as stock options and other material benefits. Yes, and job titles, and positions in the hierarchy. Not to forget punishments of various kinds. When this is the management thinking then it creates a system of constant bargaining: you do this, you get this; if I don't get this, I don't do that.

In engagement theory the idea is reversed. Here the employer strives to tap into the intrinsic motivators of the person, to create such working conditions and relationships within the company (its executives, managers and employees) that people have an inner motivation to do their best. Obviously salary and material benefits remain important, but they are no longer the sole drivers of motivation.

Here we then move from efforts to motivate one or another behavior with sticks and carrots to start the engine that ignites the employee's inner motivation. We create the conditions for the person to be self-motivated by the job and the general work conditions.

ENGAGEGEMENT IS ESSENTIAL FOR BUSINESS SUCCESS

As I stressed above, engagement is not practiced for the purpose of ensuring employee satisfaction, although that usually follows from proper engagement. Rather, companies invest in employee engagement in order to ensure the success of the business strategy and ultimately profit and shareholder value. Surely, nobody can doubt that people that are genuinely interested in their work and each day do their best for the sake of it create more value than non-engaged people.

Levels of engagement directly affect: customer service, quality, productivity, innovation, staff attraction and retention, lower levels of absenteeism, and other things.

For those who continue to doubt, we can point to various surveys and studies that confirm this:

- A European wide study demonstrated that companies with higher average employee engagement have significantly higher operating margins relative to industry standards[8]. 88% of highly engaged employees believe they can positively impact the quality of their organization's products, compared with only 38% of the disengaged[9]. Most importantly this means that employees actually are concerned with quality and they feel bad if they don't experience that the company management reciprocates this concern. This was confirmed by another study: 84% of highly engaged employees believe they can positively impact the quality of their organization's products, compared with only 31% of the disengaged.[10]

- What was said above is also true for customer service (another aspect of quality): 72% of highly engaged employees believe they can positively affect customer service, versus 27% of the disengaged[11]. This means that there is a real reason to consider that the disengaged are that way because they do not experience that the company reciprocates their concern for customer service. A study by Gerard Seijts and Dan Crim confirmed that an employee's attitude toward the job's importance and the company had a greater impact on loyalty and customer service than all other employee factors combined.

- Again, the same considerations are valid for the concern for cost control: 68% of highly engaged employees believe they can positively impact costs in their job or unit, compared with just 19% of the disengaged.

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[8] Macleod, Brady: The Extra Mile. 2008. Prentice Hall
[9] Towers Perrin Global Workforce Study 2007-2008
http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2008/200802/GWS_handout_web.pdf
[10] Seijts, Gerard H. and Dan Crim (2006). "The Ten C's of Employee Engagement". *Ivey Business Journal*.
[11] http://en.wikipedia.org/wiki/Employee_engagement

- Correlations between employee engagement and desirable business outcomes such as retention of talent, customer service, individual performance, team performance, business unit productivity, and even enterprise-level financial performance have been shown by Rucci et al, 1998; McKay, Avery, Morris et al., 2007; and Schneider, Hanges, & Smith (2003)[12] [13] [14].

- It has been found that a company that manages to engage it employees is 87% more likely to retain the best talent[15].

- In a study involving the company MolsonCoors it was shown that frequency of safety incidents were five times less with a team of engaged employees as opposed to non-engaged employees[16].

[12] McKay, Avery, & Morris (2008). Mean racial and ethnic differences in sales performance: The moderating role of diversity climate. Personnel Psychology, 61, 349-374

[13] Rucci, Quinn, Kim (1998). The employee-customer profit chain. Harvard Business Review, pp. 83–97.

[14] Schneider, Hanges, & Smith (2003). Which comes first: employee attitudes or organizational financial and market performance? Journal of Applied Psychology

[15] Lockwood, Nancy R. "Leveraging Employee Engagement for Competitive Advantage: HR's Strategic Role." HRMagazine Mar. 2007: 1-11

[16] Lockwood, Nancy R. "Leveraging Employee Engagement for Competitive Advantage: HR's Strategic Role." HRMagazine Mar. 2007: 1-11

WHAT AN ENGAGED EMPLOYEE IS LIKE

A maximally engaged employee puts discretionary efforts into each task and is fully committed to the work both intellectually and emotionally, and is willing to put in as much time as is necessary to get the work done. His intellect is switched on to its full capacity, so he analyzes any given work situation with a view to finding the best solution for the customer and the company. He does not take the rules and traditional methods of doing things at face value, but instead proactively challenges the way things are done and brings in fresh ideas to improve the processes. He does not just go through the motions; rather, he makes an effort to do his very best. The engaged employee is intrinsically concerned with quality, costs, customer service, and safety, as was reported above in reference to the studies.

In table 2 follows a list of selections from the engagement literature about adjectives and characteristics that consultants and scholars use for describing an engaged employee:

TABLE 2. WHAT ENGAGED PEOPLE ARE LIKE

- Absorbed in the work - "time flies at work"
- Maintains the focus for an extended period
- Feels a strong emotional bond to the company
- Is enthusiastic and passionate about the job
- Expands the work role, flexible, not tied to a job description
- Adapts to change
- Wants to develop the job related skills
- Does not need reminding and prodding
- Feels a sense of urgency
- Is persistent
- Takes initiative
- Is goal-oriented
- Conscientious
- Accountable, feels a sense of ownership
- Responsible
- Dedicated to the work

The central idea behind employee engagement is that the company leaders should make active efforts to bring about these positive characteristics in the employees. They do this by creating the appropriate corporate culture of engagement and self-discipline. But we do need to acknowledge that there are differences in the individual capacity of people to engage, and for some people no amount of engagement effort will bring about the desired outcome. This is why staff and recruitment policies will still be a crucial element of a proper engagement strategy. The company has to hire and retain people who are suitably self-disciplined and self-motivated for a culture of engagement.

If engaged employees are like that, then what are non-engaged employees like? The easy answer is that they demonstrate the opposite characteristics; let's point out some of them. The non-engaged employees don't really care about the work and the best interest of the company. They come to work in order to get their salary and without much other motivation. They don't really contribute to the business, or worse yet, push it in the wrong direction. Their work hours are spent lounging around with coworkers, in private phone-calls, surfing the internet about non-work related matters, and so on. Among the younger generations Facebook is the center of the universe of the non-engaged.

They are not interested in what is going on in the company, they don't ask questions about the business and don't offer any useful input, doing only the minimum that is actively required from them. Initially when new in the organization or young in their field they might have been enthusiastic and inquisitive, but after years of being hammered down by apathy and neglect from bad management, they turn sour and start to resent the dismal conditions in which they have been stranded.

I frequently think about the paradox of terrible service and even the sometimes inhuman conditions which Russian doctors and nurses inflict on their patients at Russian state-owned clinics and hospitals. It is a paradox as I also see the young talented and enthusiastic people that graduate from medical colleges and universities. I know that patients and their relatives often need to procure medicine and supplies themselves, as the hospital cannot offer what is needed, or worse, does not want to offer it. I have heard about cases where relatives need to bribe doctors to give treatment and bribe nurses to change seats and even to be able to urinate and defecate. The attitude of the staff is often harsh, cold, impassive and indifferent. I wonder how these people, who in their private life are caring and loving mothers, fathers, relatives and friends, switch on to such behavior. But the reply is quite simple. They initially joined the clinic or hospital full of hope and energy. But over time they see their hopes crushed by bad management, underfinancing, dilapidated physical environment, corruption and the ensuing bad morale. At the same time I can point out that in privately owned and financed clinics and hospitals in Russia, the situation is already far better. They have normal material conditions, and anyway, even if surrounded by bad practices, private operators are driven by clients, patients, although the focus might not yet be quite up to the needed levels. At some point the behavior of most people starts to mirror the conditions they are put into and the behavior of the people around them. This same observation is true for the Russian police. Fortunately, the Russian president Putin has been able to increase the prosperity of the country so as to allow in recent years strong measures to improve the material conditions of both health care and law enforcement. This is the condition sine qua non for a healthy organizational culture in those spheres. The next step would be to actively teach the culture of engagement to the respective managements and to implement it on a large scale across

the country.

Non-engaged employees actively defend their job turf in the sense of trying to avoid any new tasks and not wanting others to interfere in their own. They rarely turn to coworkers for help or offer it themselves. "I'm doing what I'm being told to do. I will do nothing more and nothing less." Here teamwork does not come naturally.

If the manager finds that he has to spend a lot of time tightly managing a person, then it is a clear sign of a possible case of non-engagement.

WHAT CORPORATE CULTURE IS AND THE DRIVERS OF ENGAGEMENT

In my view the paramount issue about employee engagement is the corporate culture: Engagement has to be anchored in a corporate culture that stimulates and sustains engagement, a self-sustainable culture of engagement.

In the final analysis, a company is a collection of people working together. What their work results in depends on the way they work and on their working practices: in short, their culture of working together. From this simple insight we may define a company's corporate culture as the way business is done in the firm. Corporate culture is therefore the aggregate reflection of all actions of a company, decisions and behavior of its management and all of its employees, as well as all the business practices and business processes. Knowing this, we know how to modify a corporate culture to suit our goal of innovation, customer service and employee engagement: We simply need to work simultaneously on all aspects of the corporate culture, that is, the organizational structure and all the business decisions and their implementation have to be so designed as to bring about engagement. We need to change the behaviors and rules and practices which the behaviors reflect. But changing behavior is not, as many think, an issue that should be left to psychologists. Changing organizational behavior is a leadership task for the executives involving all aspects of the business.

> Corporate culture is the aggregate reflection of all actions of a company, decisions and behavior of its management and all of its employees, as well as all the business practices and business processes.

We should not perceive corporate culture as one aspect of the business along with other areas of business such as strategy, marketing policies, assets, financials, organizational structure, and others. Instead we stress that the sum total of all those issues is the corporate culture. As Lou Gerstner said: "Culture is not just one aspect of the game – it is the game"[17]. Therefore to make a firm more successful and profitable management has to ensure that all the strategic choices and attempts to change are reflected in the behavior of all employees, in the corporate culture itself. Knowing this about corporate culture, we realize that all strategic choices that aim at growth, improved profitability and long-term success will have to be implemented at the level of the corporate culture. If the corporate culture does not change so as to reflect the new strategy, then the strategy fails. Too often the results of a strategic change remain lackluster because company management focuses too narrowly on the material assets involved in the strategic decision and the related financial and technological aspects while ignoring the need to change the behavioral practices that affect the overall performance.

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[17] Gerstner, Louis: Who Says Elephants Can't Dance? 2003. HarperCollinsPublishers

We say that corporate culture is the aggregate performance of each individual employee, but the performance of the individual is influenced by a multitude of factors. These factors form the constraints or drivers of a corporate culture. The behavioral elements that add up to a corporate culture are dependent on many considerations starting from the broadest of all categories, that of human nature. But the beauty of engagement theory is that we need not worry about attempting to change human nature. Instead we make use of the insights into the ways of bringing out the best of human nature in a culture of engagement.

ENGAGEGEMENT DRIVERS – WHAT INFLUENCES A CORPORATE CULTURE

I have chosen to illustrate the engagement drivers (or drivers and influences on a corporate culture) by dividing them into 12 categories as was done in *table 3.*

TABLE 3. Engagement Drivers

1. Trust, fairness, respect
2. Alignment
3. Communication
4. Empowerment
5. Efficient processes
6. Organizational structure
7. Self-discipline
8. Total focus on customer satisfaction and quality
9. Behaviors required from leaders and managers
10. Individual drivers:
11. Individual drivers – quality of life
12. The job itself
13. Pay and rewards
14. The soft side of corporate culture

I will below expand on these and present the main features of all these engagement drivers under separate headings. But first I need to alert the reader to the various misconceptions about the nature of corporate culture which circulate in academic literature.

CHAPTER 3

WHAT CORPORATE CULTURE IS NOT

WHAT CORPORATE CULTURE IS NOT

When organizational psychologists (and people influenced by their vein of thinking) talk about corporate culture, they usually treat it from the point of view of "soft issues" - psychological, anthropological and other such complex and profound concepts of academic philosophy. They say, for example, that "organizational culture is a set of shared mental assumptions"[18]. Or, they view corporate culture "through things such as stories, rituals, and symbols", or "through a network of shared meanings," "traditions" etc[19].

By criticizing the "soft-side" approach to corporate culture taken by traditional organizational psychologists, I want to demystify what corporate culture is about and stress that the main role here is with business leaders who have to concentrate their time and resources on working in a complex manner with all issues of the business so as to affect the corporate culture, which is nothing but a reflection of their implemented decisions. This is not to deny that the professional organizational psychologist would have a role to play in it.

An influential theory that has contributed much to the misconceptions about corporate culture is Geert Hofstede's *cultural dimensions theory*[20]. Hofstede derived his theory from the realization that the national and regional cultures inform behavior. Can't argue with that, can we? Obviously there are these and many other things that the behavior of a person is influenced by. But the problem here is to try to build this insight into a theory of management the way Hofstede did it. He posited that the influences that affect an organizational culture can be divided into five dimensions of culture as follows:

- *Power distance* – According to this concept there are various degrees to which a society expects there to be differences in the levels of power between bosses and subordinates. Some societies are considered to be more prone to expect some individuals to wield greater powers in an organization than others. That is, in some societies the expectation is that there should be more social inequality within the organization. *Uncertainty avoidance.* – This concept aims to measure how different cultures cope with uncertainty about the future. And there is said to be either a rational or non-rational approach to coping with that by means of technology, law and rituals. According to Hofstede *rituals* that aim at coping with the non-rational aspects of uncertainty include: memos and reports, some parts of the accounting system, a large part of the planning and control systems, and the nomination of experts[21].

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[18] Ravasi, Davide & Schultz, Maiken (2006). Responding to organizational identity threats: Exploring the role of organizational culture. *Academy of Management Journal*, 49(3), 433-458

[19] http://en.wikipedia.org/wiki/Organizational_culture

[20] Hofstede, Geert H. 2001. Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations. Sage Publications. Some of the ideas I here attribute to Hofstede are derived from the http://geert-hofstede.com.

[21] http://en.wikipedia.org/wiki/Organizational_culture

- *Individualism vs. collectivism.* – This dimension is said to measure the disharmony between personal and collective interests.

- *Masculinity vs. femininity* – With this concept Hofstede divides society into either predominantly male or female dimensions in terms of cultural values, gender roles and power relations. - No comments.

- *Long-term vs. short-term orientation.* –The long-term orientation dimension, we are told, has to do with society's search for virtue, whereas societies with a short-term orientation "generally have a strong concern with establishing the absolute Truth."[22] I quote further: "They are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results. In societies with a long-term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results."

The problem here is not whether Professor Hofstede's theories are wrong or not; that is any case a question we cannot resolve because it is a question for aesthetics. We cannot argue on matters of taste with those who like that kind of prose. Rather the problem here is that these ideas are largely useless, if not nonsensical, in a context of corporate culture. I would place what was said about "masculinity vs. femininity" and "long-term vs. short-term orientation" squarely in the category of the nonsensical. When it comes to his conception of "uncertainty avoidance," I don't think it is a relevant point in the context of a corporate culture, inasmuch as in a corporation uncertainty avoidance is more a question about the prescribed practices to deal with these issues, practices that are prescribed by management decisions. I may note that, now that most countries in the world have moved to a market economy, we cannot see any major differences in respect to how people in different countries deal with these issues, which we can glean already from their respective macroeconomic, monetary, and fiscal planning, which are all questions about future certainty/uncertainty.

In fact it seems that Hofstede's concept of uncertainty avoidance is entirely based on cultural bias and his inability to discern the influence of the market economy. This becomes completely clear when we take a closer look at how he treats this concept. In essence uncertainty avoidance, according to Hofstede, is about a culture's preferences for strict rules and regulations over ambiguity and risk.

We need to keep in mind that his research was originally based on studies made prior to the fall of the Soviet Union and the emergence of China as a capitalist market economy. So here really is a very simple influence which Hofstede did not recognize: with the change of

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[22] http://geert-hofstede.com/dimensions.html

the political model of government and introduction of the market economy, such business practices that are conducive to dealing with uncertainty have emerged, so to say automatically as a result of the transition itself. After all, business in a market economy is fundamentally only about risk (risk in relation to anticipated but uncertain rewards). Hence uncertainty avoidance is not any kind of a deep-rooted culturally based influence but rather a function of market economy vs. planned economy, which latter by definition prohibits the practice of speculating on the future.

According to Hofstede, the countries which were prone to avoid uncertainty displayed common traits, such as having a long history and a monolithic, homogenous culture. This while the countries with greater appetite for risk (that is, preference for ambiguity and risk), in Hofstede's understanding, are those with a *young* history like the USA, which are ethnically and culturally diverse due to immigration from various parts of the world, and are innovative and inquisitive. But when we recognize the role of the market economy we see that these are circular definitions: market economies attract immigrants and innovation follows from a market economy.

Hofstede actually ranked countries by this parameter. In the ranking the so-called "Protestant" countries of the West scored well in terms of risk appetite (he has inherited that prejudice from Weber) and also, surprisingly for this kind of study, China and countries with Chinese influence scored also well, but this comes after updating the data to reflect China's recent success. The risk-averse cultures were, for example, Russia and the countries influenced by the former Soviet Union, and Catholic, Buddhist and Arabic-speaking countries. – Hofstede ranks Russia as risk-averse only because he has not realized what is going on in the country after introduction of a market economy. Anybody who works here will realize that the Russians on every level of society are extremely prone to take risks. When it comes to Buddhist and Arabic countries, clearly they don't have such a developed level of competitive market economy. The same goes for the countries which he refers to as having strong Catholic influences.

I can still somehow understand that an academic scholar wants to put forward such concepts and claim that such dimensions would somehow be of relevance in respect to how various cultures function. But I cannot comprehend how he is actually able to assign exact measures to any country in the world for these artful concepts. (In the 2010 edition of his "Cultures and Organizations: Software of the Mind", Hofstede gives measurement scores for 76 countries.) Clearly Hofstede is here elevating himself into the role of some kind of a god that possesses such unique insights into people's minds. It is as if Hofstede were drawing from a giant crystal ball to come up with his ratings. Then by smoke and mirrors disguised as academic science, or rather like the interpretation of horoscopes, he reports the results of his clairvoyance regarding each of his victim countries.

Clearly these kinds of things don't lend themselves to measurement, all the more not for people of entire countries.

Hofstede's approach yields a concoction of contradictions, confusions, fiction, and falsehoods. Let's look at some of them. But first I need to point out that the Professor Hofstede is fundamentally mistaken even in the basic assumptions of the theory of uncertainty avoidance. In his theory a low score on uncertainty avoidance signifies that the country can live with an uncertain future. Such countries, like the United States, are, according to Hofstede, comfortable with uncertainty and ambiguity. The fundamental issue here, he says, "is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen?" That is, countries like the USA are said to tolerate uncertainty and just let it happen. But clearly that is wrong. Instead, in the USA, the country with the longest history of a true market economy (*longest* history and not shortest as Hofstede wrongly presupposes), they first developed elaborate practices to contain uncertainty and to avoid future uncertainty to the best of their abilities. This is done in the form of all kinds of risk management tools, analysis, financial planning, insurance, hedging, you name it. Again we see that Hofstede is altogether wrong in his basic assumptions. It is precisely the countries that he said have high tolerance for uncertainty that are the ones that are most systematically doing their best to avoid it. And on the contrary, those countries that Hofstede condemned as uncertainty avoiders have a far more relaxed approach to it, such as Russia. Albeit the reason is not programmed in people's minds, as we are told, but in the business practices elicited by a market economy.

Hofstede also confuses uncertainty avoidance with the normative culture of the country, that is, the supposed preference for "rigid codes of belief and behaviour." Countries like the USA with Hofstede's high tolerance for uncertainty supposedly maintain a more relaxed attitude to rules. However, anybody who has passed through immigration control at a US airport may judge the USA by this criterion. In every aspect of normative behavior (adherence to rules), the USA is an extremely rigid country characterized by the notorious "zero tolerance" policy for deviance. Increasingly the USA is overwhelmed by rules in every aspect of life. The same goes for Hofstede's other misplaced uncertainty lovers, such as Sweden and the UK.

Bogged down by these confused concepts, Hofstede identifies Greece, of all countries in the world, as the most risk-averse! This after the country's leaders, and their electorate, have for decades not given a damn about prudence and hedging their risks and overwhelmed the country with debts until it went bust. Clearly Greeks, by these criteria, love uncertainty!

overwhelmed the country with debts until it went bust. Clearly Greeks, by these criteria, love uncertainty!

The study is full of peculiarities. Perhaps out of "neighborly love," Hofstede, coming from the Netherlands, accords Belgium one of the worst scores as uncertainty avoiders. This while his native Netherlands scores in the medium range. Considering that half the people of Belgium, the Flemish, are in essence (at least in a global comparison) culturally and linguistically the same as his native Dutch, this conclusion must be considered extremely startling. But Hofstede has an explanation for this (drawn, no doubt, from his crystal ball): "Their history of frequently being ruled by others," we are told, explains this score both in regards to the French speaking Belgians, the Walloons, and the Flemish. This theory is full of such equally simplistic and naïve explanations. And when you consider the world history you will find that the argument rings quite hollow. Which are the people that have not been ruled by "others," and which are these "others"? Oddly enough, here again Belgians are said to "favor planning" and "welcome some level of expertise" in connection with undertaking change. Which certainly is the American practice as well. In this the Hofstede method has also identified the root of the constitutional problems of today's Belgium. Belgium has a constitutional crisis due to its people's weird habit of wanting to avoid uncertainty by planning and expertise, says Hofstede. Because of the peculiar Belgian penchant for planning and desire for expertise, we are told, it is now so painful to discuss a new constitution. Never mind the issues we would think primarily relate to the question of a possible new constitution: linguistic and cultural division, the relative economic prosperity and taxation, and the usual political left and right division:

Russians are among the most stubborn avoiders of uncertainty in Hofstede's mind. They are supposedly "very much threatened by ambiguous situations." This claim is made although the country has in the recent two decades totally changed in every aspect of life: it has abandoned communism and the planned command economy and embraced a market economy, introduced a convertible currency and practically free flows of capital, private property, opened the borders for free travel to and from the country, and introduced from all over the world food and eating habits for which they did not even have words before (Japanese sushi, Italian pizza, and hamburgers from McDonald's have now become staple food for Russians) and so on.

Further we are told that, in a desperate effort to avoid uncertainty, Russians have also "established one of the most complex bureaucracies in the world." However, it is not Russians that have established this bureaucracy, but the former communist rulers. Because a communist system is a planned system in every aspect of life, then bureaucracy is by definition a natural consequence of that. It will take time to normalize things. But the good professor could also have looked a little bit further (after all he is an anthropologist) at how people actually respect these rules. It is a no-brainer for anybody that has some experience of Russia to see that Russians are probably world record holders in ignoring

these rules. In fact, the whole country was in a state of virtual anarchy during the 1990s. This does not harmonize with Prof. Hofstede's theory on uncertainty avoiders. After all it was said that it is in the uncertainty-loving countries, like Sweden and the USA, where people "believe there should be no more rules than are necessary and if they are ambiguous or do not work they should be abandoned or changed." Russians do this all the time.

Typically for this kind of theory we find this curious statement describing Russian's uncertainty avoidance: "Presentations are <u>either not prepared</u>, e.g. when negotiations are being started and the focus is on the relationship building, <u>or extremely detailed and well prepared</u>. Also detailed planning and briefing is very common" (underlining mine). – It turns out that both planning well in detail and not planning at all are sins of uncertainty avoiders (sic).

Finally we are left with the categories "power distance" and "individualism vs. collectivism." There is a valid point here, but the problem is that it would be very difficult to identify in any particular case how these things stand in reality. Another point regarding these last two concepts, and all the other ones, is that this approach of trying to so identify the influences has very little practical value. For whatever the case we need to reduce the power distance in all organizations, and any successful efforts in this direction will carry a positive influence. In cultures with a traditionally more rigid social hierarchy it might be more difficult to reach the ideal level, but it is the relative level of reduction that counts in a transformation program. In respect to "individualism and collectivism," I, however, have to point out that the question might be altogether wrong to start with. I do not consider that this distinction is relevant; rather each organization has to encourage "collectivism" in the sense of teamwork, whereas successful teamwork requires people who are self-disciplined and self-motivated, which are traits of "individualism." I don't believe that people from any cultures with a market economy would be "collectivists" in the sense of blindly taking, and waiting to take, their cues from a leader. (Or whatever they might mean by this.) Some organizational consultants count Russians among the collectivists, which certainly is wrong, as I already pointed out. Collectivism vs. individualism should also not be confused with hierarchy and submission to hierarchical management. As in the Russian case, highly individualistic people submit themselves to hierarchical rule by their bosses. But precisely because of the individualism, this might be merely an apparent submission. That is, the subordinate may well show the signs of submission and obedience, but in reality he might not be aligned at all and might well, as so often is the case, go on and act as he sees fit.

THE PERILS OF CORPORATE ANTHROPOLOGY

According to Edgar Schein[23] culture is "the most difficult organizational attribute"[24]; that is, in his thinking it is one of many "attributes." I would like to point out that in my conception, culture is not an attribute but a reflection of all that is the case, of all aspects of behavior in an organization, including management decisions.

Schein's organizational model illuminates culture from the standpoint of the observer, described by three cognitive levels of organizational culture. The first level of such attributes consists of "artifacts," which include facilities, offices, furnishings, visible awards and recognition, the way that its members dress, how each person visibly interacts with others and with organizational outsiders, and even company slogans, mission statements and other operational creeds[25].

In this conception, "myths, stories, and sagas" influence how people understand what their organization values and believes and they are "represented in rituals and ceremonies." – If so, it is strange that in my career of 30 years with various organizations, I have not yet ever come across any such myths, stories, and sagas. Well, of course you hear an occasional story from the history of the company every now and then, but certainly not at any such level that it would shape the corporate cultures, much less qualify as *the* corporate culture. These ideas come, again, from the anthropological traditions of these scholars who have been raised on academic literature on studies of the native people of primitive societies in the 19th and early 20th century.

According to Schein there is a second level of professed organizational culture consisting of supposedly "shared values." These presumably are the preferences of individuals regarding such things as loyalty and customer service[26]. I think it is misleading to refer to such aspects of organizational behavior as "shared values," which concept in fact points to some much more fundamental sentiments. I would tone done the discussion in this respect. For instance, when it comes to customer service, instead of "values" we should speak of "policies" and "business practices" By doing so we highlight that this is a question of management decisions and implementation of the decisions in regard to what kind of behavior is required and what kind of people you employ for those purposes.

At the third, and deepest, level, Schein invokes the anthropological concept of "taboo" – how could we do without it in this kind of academic science! This is in connection with the discussion of "the organization's tacit assumptions." This is about "unspoken rules" that "exist without the conscious knowledge of the membership" and "it is a taboo to discuss

[23] Schein, Edgar (1992). Organizational Culture and Leadership: A Dynamic View. San Francisco, CA: Jossey-Bass
[24] http://en.wikipedia.org/wiki/Organizational_culture
[25] http://en.wikipedia.org/wiki/Organizational_culture
[26] http://en.wikipedia.org/wiki/Organizational_culture

these issues". The academic artists in this genre tell us that "culture at this level is the underlying and driving element of the organization"[27]

In problematic organizational cultures these kinds of elements are of course involved. But my point is again that one does not need to worry too much about that, because such aspects of behavior cannot be separately affected anyway. I mean that there is nothing else you can do about the "taboos" and all that gossip than to implement a healthy culture of engagement. That is, you put in leadership efforts to change the corporate culture according to the healthy principles presented in this book. And then, presto, the taboos will disappear like a bad dream when you wake up. The leadership does not need to emulate an exorcist expelling the evil spirit of the taboos by waving around his value statements and guiding principles, or hang them up in the corporate canteen and locker rooms like garlic to keep the vampires out.

Another example of this anthropologizing vein of organizational theory is provided by Gazi and Zyphur's ideas about how different types of ritual communication contribute to creating an organizational culture[28].

The ritual communication according to this idea, involves[29]:

- Metaphors such as comparing an organization to a machine or a family reveal employees' shared meanings of experiences at the organization;

- Stories can provide examples for employees of how to or not to act in certain situations;

- Rites and ceremonies combine stories, metaphors, and symbols into one. Several different kinds of rites that affect organizational culture:

    o Rites of passage: employees move into new roles
    o Rites of degradation: employees have power taken away from them
    o Rites of enhancement: public recognition for an employee's accomplishments
    o Rites of renewal: improve existing social structures
    o Rites of conflict reduction: resolve arguments between certain members or groups
    o Rites of integration: reawaken feelings of membership in the organization

- Reflexive comments are explanations, justifications, and criticisms of our own actions. This includes:

[27] http://en.wikipedia.org/wiki/Organizational_culture
[28] Islam, Gazi and Zyphur, Michael. (2009). Rituals in organizatinios: A review and expansion of current theory. Group Organization Management.
[29] http://en.wikipedia.org/wiki/Organizational_culture

- o   Plans: comments about anticipated actions
- o   Commentaries: comments about action in the present
- o   Accounts: comments about an action or event that has already occurred

- Fantasy Themes are common creative interpretations of events that reflect beliefs, values, and goals of the organization. They lead to rhetorical visions, or views of the organization and its environment held by organization members.

Let me point out that I consider it outright nonsensical to study organizational culture from this point of view.

GHOSTS, TOUGH GUYS, AND OTHER MISLEADING CONCEPTS

When I first heard about Deal and Kennedy's[30] definition of corporate culture, it sounded promising: *culture is the way things get done around here*. This sounded close to my conception that culture is the reflection of the behavior of all the people in the organization. But I then found out that this is not what Deal and Kennedy had in mind. Rather for them it reflects a value judgment of "how things are done around here" in the sense "this is the way we do it here, live with it!" They identified four different types of organizations. (Academic science is all about inventing concepts and claiming that a certain number of such concepts are valid to any given case, as if the concepts represented a tangible reality).

To give you a brief taste, these are the four possible cultures according to Deal and Kennedy:

- "Work-hard, play-hard culture"
- "Tough-guy macho culture"
- "Process culture"
- "Bet-the-company culture"

My final example of the misconceived theories of corporate culture is the theories of Robert Cooke[31]. He has invented an "Organizational Culture Inventory" which purports to measure twelve behavioral norms that are grouped into three general types of cultures[32].

- Constructive cultures, in which members are encouraged to interact with people and approach tasks in ways that help them meet their higher-order satisfaction needs.
- Passive/defensive cultures, in which members believe they must interact with people in ways that will not threaten their own security.
- Aggressive/defensive cultures, in which members are expected to approach tasks in forceful ways to protect their status and security.

Members are supposedly required to fit in these concepts in order to meet the expectations within the organization. According to this theory the employee's perception of the culture - any of the three choices listed above - forms the culture of the organization. I don't believe it, but even if it were so, then so what? What would that change in terms of how leaders have to guide their corporate cultures?

To my mind the involvement of those kinds of concepts in the discussion of corporate culture is largely misguided or irrelevant. They push people to mystify corporate culture and to think that it is about high-flying psychological stuff that doesn't have much to do

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[30] Terrence E. Deal, Allan A. Kennedy, *Corporate Cultures*, Perseus, 2000

[31] Cooke, R. A. (1987). *The Organizational Culture Inventory.* Plymouth, MI: Human Synergistics

[32] http://en.wikipedia.org/wiki/Organizational_culture

with actual business. I don't deny that a corporate culture cannot be studied in those terms for the purpose of those branches of academic science but I deny the relevance of such studies to business management. The only bridge point with reality from these kinds of studies is represented by the issues that go under the heading "rituals," if we by this mean the various kinds of corporate get-togethers, official or unofficial. It is a part of management of the corporate culture to determine what kind of social events and ceremonies (internal and external) the company sponsors and approves of. This category involves all kinds of specially designed team building events and other happenings of that kind. This indeed requires conscious management and the choices are highly dependent on the kind of corporate culture that any given leader strives for. There is no one correct answer to which kinds of social events are recommendable and which not, how many to organize, and so on, because it all depends on what kind of a corporate culture one strives to implement. But it is certain that the decisions on organizing such events must be managed so as to fit with the general strategy of the firm. There is, for example, no point in holding a "team-building: event if the executives do not first determine how the given type of event would fit with the strategic ideas on the intended corporate culture.

In Russian culture, celebrations are very important and a lot of care and attention goes into them. At work these are reflected in the ubiquitous birthday celebrations, as well as family occasions, such as the birth of a child and personal achievements. Often this means that the women (yes, usually the women) gather in the office kitchen to slice up an assortment of cold cuts and peel and cut fruits, bread and cheese. All is displayed on the table in the lunch room or negotiation room. All employees in reach are invited to join. Most companies allow them to toast the occasion with champagne, wine or vodka. Senior management is expected to address the hero of the day and to raise toasts to her success and health. But even if it is important, and perhaps nice in a way, I don't think that the meaning of these celebrations should be raised to mythological levels. In a healthy corporate culture, people will find the right balance of how much to make of such events, and there will be no compulsion in this regard. Whoever wants to treat his fellow staff members may do so; whoever wants to attend will do so; and whoever doesn't will feel free to refrain.

The problem with the theories I criticized above is that they assume that corporate culture is some kind of a stand-alone product of those psycho-anthropological ideas where corporate culture is relegated to the role of "also important." It is as if they were thinking that corporate culture is some kind of invisible entity. I remind you that I take a totally opposite view of corporate culture: *Corporate culture is the aggregate reflection of all actions of a company, decisions and behavior of its management and all of its employees, as well as all the business practices and business processes*. The beloved "traditions" and "rituals" of the academic scholars are also the result of historical management decisions about how to conduct business. Some of these decisions can be traced to existing rules, but for many of

the traditions there is not necessarily an evident source, or it might be a result of a corruption of a rule that has served a totally different function in the past. Main point: *strong leaders can change and shape the corporate culture. They do it by making decisions and implementing them. The corporate culture is the behavior which ensues from such decisions regarding all aspects of business*, for example, strategy, communication and reporting practices, organizational structure, decision making and planning processes, pay and rewards, tolerance for flaunting social hierarchical status, empowerment, risk taking, discipline, training and development, safety, and other things.

When I started my job carrier in mid 1980s in Finland, the status symbols of social job hierarchy had just stated to be questioned. At that time there were still: executive elevators, executive dining rooms, executive country clubs. But now these are largely gone.

It is evident from Kotter that even a leading authority on leadership and change with strong business credentials may be led astray by the hullabaloo conceptions on corporate culture put forward by the psycho-anthropological school of academic scholars so as to think that corporate culture is something other than a reflection of all the actions and behavior of all people in the organization. In his *Leading Change* Kotter[33] defines corporate culture in terms of "norms of behavior and shared values of a group." Further, norms of behavior, according to Kotter, are "common or pervasive ways of acting that are found in a group and that persist because group members tend to behave in ways that teach these practices to new members." Shared values in turn are "important concerns and goals shared by most people in a group that tend to shape group behavior." But by these norms of behavior he means the unofficial norms. And when it comes to "shared values," I already expressed above my contention that it is a grossly overvalued category in respect to a discussion of what corporate culture is. Kotter refers to the above concepts as "social forces," which he equates with corporate culture. That is, according to Kotter corporate culture is a specific pocket in the company which manifests itself in the form of elusive "social forces."

Further Kotter posits corporate culture as "a powerful influence" on behavior. But as I have been pointing out, corporate culture cannot be considered an influence on organizational behavior. Rather, it *is* the behavior, or on a more abstract level a manifestation, or reflection, of the behavior. It goes without saying that past behavior influences present and future behavior, so we can in this sense take corporate culture (in Kotter's sense) to mean that "past behavior influences present behavior," which is the same as saying that past corporate culture influences present corporate culture. Nobody wants to argue with that. But here the point is that at each stage we mean *behavior*, human behavior. It is the

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33 Kottler, John: Leading Change. 1996. Harvard University Press

behavior of people that is the influence; at least, that is what Kotter means. And I largely agree in that sense, although one should point out that material manifestations of past behavior, such as the buildings, office design and corporate uniforms, also influence behavior to a certain degree. (The latter are quite easy to change when you embark on a journey to change the corporate culture.)

We have established that past behavior exercises (in people's memory, conscious and subconscious) a strong influence on future behavior. But having also established that "culture" is the behavior, we cannot therefore say, as Kotter does: "Culture is important because it can powerfully influence human behavior…" Because if we put it like that, then one will think that culture and behavior are separate things.

Before looking at how Kotter develops this theme, I need to mention another of his background assumptions. This is the misconception about the "shared values" which we encountered already above. He proceeds to illustrate his idea of the influences of corporate culture by hypothesizing about the ordeals of a new young hire, a college graduate, who goes up the career ladder in a corporation and bumps into the supposed reality determined by these "shared values"[34]. After the job interview he is unwittingly hired because of cultural bias and not because of his skills and competence. His initiation into the harsh norms and values of the corporate culture, which haunt the firm like a ghost, then gets under way. The corporate culture manifests itself first in the form of the boss going up in smoke over some incident, then later when a startling comment at a meeting is met with stony silence, and further reveals itself when an older secretary rudely read him the riot act. Bit by bit, the phantom culture eats through the skin of the poor fellow, so that after eight promotions by the age of fifty, he has become totally possessed by the demon of the corporate culture. I am ironizing here, but my point is that we should not think of corporate culture in these terms, at least not to any significant degree. More than that, I think Kotter gives too much emphasis to these merely superficial manifestations of human interactions. Hearing one or another thing about organizational behavior from coworkers should not be mistaken for manifestations of a company's "stories" and "rites." People will always be different and have their own ideas and own peculiarities, but there is no point trying to add up all that to amount to a manifestation of the "essence of the culture." In regard to the scolding secretary, I think that in a true culture of engagement you would not keep those kinds of people aboard. I would think that this story rather shows, if anything, a situation where there are no "shared values" at all.

The point is that such problems go away once the proper corporate culture is in place. Therefore we should not overly stress these aspects of normal human behavior which really are manifestations of the greater culture of the surrounding society. It is only when

[34] Kottler, John : Leading Change. 1996. Harvard University Press

a particular kind of behavior is manifest in persistent and consistent practices throughout the organization that one may assign them a more important role in the assessment of the corporate culture. You cannot change the greater culture of your surrounding life but, as I pointed out just a while ago: you can change corporate culture because you as a leader can establish what kind of behaviors are acceptable in your organization.

Informed by such misconceptions, Kotter reaches the startling conclusion that in a corporate change process, leaders should not attempt to change culture first but should leave it for the last stage. Such an idea can come only from the conception that culture is a standalone entity in the vein of the misconceived ideas I have referenced above. But I remind you that in reality *corporate culture is the aggregate reflection of all actions of a company, decisions and behavior of its management and all of its employees, as well as all its business practices and business processes.* There is no "corporate culture" that could be conceived of separately from all the resulting behavior of the people in the firm. Corporate culture is then the result of the behavior. Therefore you have to change precisely the behavior in order to change the culture; in fact, the perceived cultural change is the consequence of the new behavioral norms that you put in place in the form of business decisions in relation to all aspects of the business. I am therefore perplexed to read Kotter saying: "Culture changes only after you have successfully altered people's actions, after the new behavior produces some group benefit for a period of time, and after people see the connection between the new actions and the performance improvement…" – What then is this elusive concept "culture" for Kotter? The phantom I evoked above?

GOOD CULTURES AND BAD CULTURES

Once in a while I come across authors who claim that one cannot validly say that there are good or bad corporate cultures. "There are only different kinds of corporate cultures," they insist[35] [36].Here they go again, the anthropologists with their misconceived cultural relativism. The ideas condemning the moral judgment of cultures is fundamentally a good idea developed to protect our thinking from mental colonialism so as not to project our Western cultural values automatically onto other countries. And, in my understanding, the original idea was in fact meant to protect the integrity of the individual by considering his actions in the background of the culture in which he lives and has been raised in. And in this sense it is a very true idea. I am confident that all humans are genetically identical in their cognitive and emotional abilities. But the very problem is that the culture and language they are exposed determine their values and behavior. And certainly there are huge differences in cultures in this respect; there are benign and malicious, and even evil cultures. Think of cultures of cannibalism or the ancient Aztec culture with their ritual murders of people in the name of religion, human sacrifice and redemption. Certainly our cultures are better. Or how about subcultures like the Mafia, or street gangs in the Favelas of Rio? Are they equally as good as the culture of the orderly Swiss? Or do you suppose that the social culture of Soviet Union was equally as good as that of today's Russia?

James Fairfield-Sonn recounts an amusing story on how the Wall Street Journal raised the question of whether the cultures of Price Waterhouse and Coopers Lybrand would be compatible in the wake of their announced merger in 1998[37]. According to the WSJ the differences were great. The penetratingly insightful investigating journalist had established that the people at Price Waterhouse wore starched underwear while the folks at Coopers Lybrand didn't like to wear underwear at all. Unfortunately Fairfield-Sonn softens this funny anecdote on differences in corporate cultures by stating that he does not mean to say that he thinks that one culture is better than another one: "cultures are just different," he assures us. Certainly one is better than the other. For a starter, starched underwear may cause all kinds of unpleasant ailments. But taking the figurative point, starched underwear, is meant to connote a very conservative organization, and it must mean hierarchy and bureaucracy, whereas the characterization of Coopers Lybrand connoted an image of a dynamic sales-oriented organization. In my mind the second is clearly better. And most probably the resulting merger was better and more comfortable for everybody, including in their pants.

Another point is that it is difficult to give an objective rating as to which culture would be better than another, as we as observers are anyway tinged by our culturally informed

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[35] Tiri, Mirja: *Differences in Corporate Culture are reflected in Human Resources Management in Russia* (Finnish) in Henkilöstöhallinnon käsikirja 2012, Finnish-Russian Chamber of Commerce

[36] Fairfield-Sonn, James W.: *Corporate Culture and the Quality Organization.* Quorum Books. 2001

[37] Fairfield-Sonn, James W.: *Corporate Culture and the Quality Organization.* Quorum Books. 2001

judgments - by the received prejudice from our own cultures. If we speak about the broader social cultures, I may state with confidence that there certainly are objective values that let us distinguish good from bad. A bad culture is one that does not respect the life of an individual and suppresses individual freedoms, which in its extreme form is manifested in ritual killings of human beings in the name of a perverted justice which is known as "capital punishment." But a culture is also bad if it is not prepared to protect the life of individuals with force if needed. In my mind bad cultures are such where life is very much regulated by rigid religious precepts or other extreme ideologies, whereby people are forced to conduct their lives in accordance with other peoples' narrow-minded and radical religious and ideological ideas. And certainly we can detect that some cultures are more conducive to entrepreneurship and a quest for prosperity and innovation than others. There are differences in the importance they place on rule of law, equity, democracy, safety, creativity, arts, sports, their own sense of cultural pride and superiority, their hubris, etc. And all this affects the judgment of the culture. But when we leave out the extremes we are hard pressed to rank countries in respect to their cultures, in most cases we can only analyze separate aspects of the culture and rank them by those, keeping in mind that many have their good and bad sides.

What is true for cultures of countries or societies is true for organizational or corporate cultures as well. The difference is that in the case of organizational and corporate cultures, it is just so much easier to judge what is good and what is bad. I am confident that we can do it by applying the principles of engagement and a healthy corporate culture as presented in this essay.

The question of whether there are good or bad cultures (which there clearly are) is different from the question of whether you could impose one uniform ideal that works in all cases. A corporate culture can be molded to suit the specific strategic objectives of any given company. All the drivers of corporate culture which were presented above can be adjusted to reach the specific kind of corporate culture that a leader wants to attain. A corporate culture can and should be fine-tuned to elicit the kind of strategic behaviors that the leadership recognizes as relevant for the given business. A business that strives to be highly innovative certainly needs to bring out different kinds of behaviors than a business that emphasizes quality, or one that emphasizes tradition. And some types of businesses require more formal discipline than others. Whatever the case, all the considerations presented in the discussion of the drivers remain relevant for all kinds of businesses; it is just a question of degree: how much certain kinds of behavior are encouraged relative to other kinds. It is only in this respect that we need to recognize that we cannot rank different kinds of corporate cultures in terms of good and bad. But in fact we are here dealing only with various aspects of the general standard of a good culture. And when Michael Porter says "There is no such thing as a good or bad culture per se"[38] I think it is

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[38] Porter, Michael, page. 24, Competitive Advantag.2004. Free Press

precisely this that he has in mind. The fact that this is the insight that can be gleaned from him is clear from these words: "Culture can powerfully reinforce the competitive advantage a generic strategy seeks to achieve, if the culture is an appropriate one."

CHAPTER 4

HOW TO BUILD A HEALTHY CORPORATE CULTURE AND THE DRIVERS OF ENGAGEMENT

We now return to the engagement drivers or the different categories of what influences corporate culture. I will present them one by one below.

TRUST, FAIRNESS, RESPECT

A list like this always runs the risk of being treated as presenting the items in order of priority, which is not my purpose. However, I think that *trust*, *fairness*, and *respect* truly deserve to head the list. Trust is a necessary element of any organization. Without sufficient trust between the members of an organization and especially between its leaders and staff members, we would be hard pressed to define the collection of individuals bound together as an organization in the first place. The strength of the trust determines the strength of the organization. And this is especially true when we speak about engagement. Nobody is going to feel and act engaged if he cannot trust the organization and its leaders or the immediate managers.

Fairness and respect in turn are essential building blocks for trust. The executives and managers must continuously reinforce the bond of trust by acting fairly and treating people with necessary respect. A proven track record of keeping promises, communicating candidly and treating people fairly and with respect reinforces the natural tendency to reciprocate the kind of behavior people are subjected to. For engagement to happen people need to feel safe to take action on their own initiative. Nobody will be prepared to take a personal risk for the sake of the firm if he does not feel that he has the trust and backing of the management.

Questions of ethics and values are closely aligned with those of trust and fairness. Trust and respect require that the employee share the values and ethical principles of the company as they are manifest to him most directly through the behavior of the immediate management. (This concerns things like honesty, anti-corruption, loyalty, and so on.) Because we are dealing with employee engagement in a modern business organization that is charged with building shareholder value, the values and ethics naturally need to be transparent and anti-corrupt. I note that it is, of course, possible that people can feel highly engaged also in organizations that represent cultures that most of us would find repulsive such as, for example, strictly sectarian religions led by charismatic leaders by whom the followers are spellbound or, for example, criminal mobs, or radically nationalist political movements. Unfortunately, throughout history, some of the most evil leaders have been successful in engaging their followers.

ALIGNMENT

Alignment refers to the effort to ensure that the employee understands how the job contributes to the organization's success (strategy, goals) and what his role in that is.

Alignment is about effectively communicating to the staff the company's purpose, its vision, mission, guiding principles, and strategy. (I note that it is not of the essence what a particular company calls such statements of its fundamental purpose and goals.) In order to engage the staff a company must ensure that the people believe in these fundamental statements of the firm's purpose and goal, the strategy of the firm, and the purpose of the organization and one's job. The employee needs to understand the value and purpose of the contribution expected from him. Understanding the bigger picture makes the individual efforts meaningful.

A condition precedent for all efforts of alignment is that the company has properly formulated and published these key corporate statements about vision, mission, guiding principles, and strategy. And then they naturally need to be shared with the staff, for there is no use in having a vision and a strategy if you don't share them with the people you rely on to actually implement them.

The communication of the strategy has to be adapted to each organizational level (or competence level) so that each employee understands how the job is related to the overall strategy and business goals.

Some consultants identify alignment as the fundamental basis of engagement[39]. By alignment, they mean the condition that the employee understands how the job contributes to the organization's success (strategy, goals) and how her role is related to that. Efforts of alignment are about bringing clarity to the employee of what the job really is and why it matters in the big picture. After alignment come the deeper and more multifaceted layers of engagement. Alignment is about ensuring employees know what to do, while the rest of the engagement efforts are about ensuring they want to do it. Alignment can in principle be reached through effective communication, whereas the next level of engagement requires more complex leadership efforts and a corporate culture that is engaging in every aspect.

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[39] Macleod, Brady: The Extra Mile. 2008. Prentice Hall

COMMUNICATION

Alignment, as described above, is brought about by proper efforts of communicating a vision, mission and strategy and the individual's role in it. But the importance of communication does not stop here. In fact, the importance of communication does not stop anywhere. We could go as far as to define business as such entirely in terms of communication: Business is all about communicating how to organize production and marketing of goods and services, combined with the financing of said purposes. The more efficient the communication on all levels the better the business result.

For a culture of engagement both external and internal communication are of the essence. External communication affects the company's brand and reputation as well as customer satisfaction. Brand reputation as such reflects engagement, as the company's perceived image among the public or key constituencies tends to increase levels of engagement and attract talent. Internal communication is about efforts to stimulate free flow of information. There are many aspects to internal communication starting from the need to create a culture of candid speech in a polite atmosphere. Hand in hand with this objective goes the need to ensure that information flows within the organization unhindered by hierarchical and social boundaries without the imposition of different hierarchical levels requiring different styles of politeness and respect in communication between people of different levels of seniority or perceived social status.

But here we need to make a caveat: a free flow of information does not mean that every piece of information is shared with everybody. On the contrary, questions of confidentiality and business secrecy are crucial for any organization (as well as a self-organization) to work. This aspect of the work is an important manifestation of the need to retain a certain level of hierarchy and especially to differentiate between competence categories in establishing the levels of authorization for data access. A related question is that of the culture of e-mail communication. Most organizations of the world today experience tremendous problems in establishing which people should be recipients of emails, while a lot of people on various competence levels are included in the emails "just in case." This leads to an information overload which runs the risk of making the whole process of communication meaningless. This is a typical question which can only be resolved with the relevant level of self-organization, for certainly it is not conceivable that anybody would elaborate written rules to capture all the possible scenarios of email communication so as to establish which people are copied on one or another kind of matter.

Although we tend to associate emailing with efficient communication, the system often yields quite the opposite result. It creates a communication overload and reinforces bureaucratic practices when not properly managed. For people that don't want to take

responsibility for their tasks and be accountable for results, emailing offers a magnificent hideaway. Such people easily fire off emails, including tens of people on the copy. Without specifying their message, they vaguely refer (often without stating) to a whole thread of emails, which soon take on all the features of the classic children's party game of broken telephone. People will, in their comments to the preceding thread, add their own comments on one or another perceived aspect of the discussions. And soon the whole chain of communication becomes outright meaningless and actually harmful to business due to the number of misstatements it contains. People who want to avoid accountability and are not properly engaged to bring results are in the habit of entirely relying on this kind of nonsensical e-speak. When pressed on why they have not communicated important things or missed an email, they refer to the said chain of e-babble.

To oppose this harmful practice, we have at our firm imposed a rule according to which the ownership of an email remains with the sender. That is, the sender, not the receiver (or intended receiver, emails are not always properly delivered), is responsible for the receiver's reaction to the email. The sender has to await a clear reply from the receiver which acknowledges that the latter has understood the issue in question. The sender is not anymore in a position to say: "I sent you an email" or "You were on copy." We also stress that people must remember that the telephone (not SMS) is the primary means of communication in urgent and important things. Too many people seem to think that other people have nothing better to do than stare at their laptop (or smartphone) in anticipation of the emails you are sending.

Another aspect of this is that we have forbidden the use of BCC mode in business emails. BCC is when you copy in a person on the email without the other recipients being aware of it. This practice creates a lot of unpleasant situations that do not fit into a culture of trust and respect. Among other things, the BCC-recipient might not realize that he was on the BCC only and will then weigh in the communication with embarrassing consequences.

Considering these communication constraints, it is of the utmost importance to encourage a dynamic, open and effective communication culture. Dynamic communication leads to flexible and fast decision making. It enables an environment in which executives and employees are empowered at their respective levels to make quick decisions on operational issues. It is important, therefore, to encourage all employees to communicate openly and frankly without worrying about hierarchy or title. This enables the free flow of information between all functional departments, from the customer interface to the business leaders, and vice versa.

Today, when all business-relevant data is recorded – or should be recorded – it is increasingly crucial to align the IT systems with the strategic goals of the corporate culture. The management has to ensure that all relevant systems are integrated and to

reach an overall functionality whereby no data is entered more than once in the databases of the company and all subsequent transmission of the data is automated. This has to do with the need to get the customer relationship management system (CRM) right and to implement an enterprise-wide accounting, reporting, and planning system (ERP) that meets the strategic goals.

External communication is also of significance for a culture of engagement and an important part of self-organization. Usually companies experience no significant problems in establishing levels of empowerment for marketing and public communication with shareholders, external stakeholders and the market at large. But it is much more difficult to manage micro-level communication with customers in connection with on-going business activities. An important aspect of this is establishing template documents for proposals, contracts, work reports, and other typical communication situations. It is yet more difficult to make the organization respect the templates while at the same timing ensuring necessary situational flexibility. In fact, this issue affects all kinds of client communication. With the technological means and the democratic communication culture of today, and especially with the influence of social media, the threshold for people to reply to anybody about anything has become very low. Therefore, properly managing the competence levels, or levels of authorization, in client communication has become one of the most demanding challenges of management. You want to encourage flexible communication, but you also want to ensure quality and compliance. The organization has to learn to understand the importance of various kinds of communication with clients and establish the levels of authorizations accordingly. I don't think it is feasible to resolve this issue by an attempt to establish strict rules in the traditional sense, rather this is again an issue that is best resolved in a self-organization populated by self-disciplined people.

Communication should not only be considered a question of purposeful actions to address somebody; rather it should be thought of as all interactions between people. Therefore, the management has to ensure that these interactions are as free and flexible as possible. It is a question of removing both physical and social barriers that may stand in the way of the free flow of information. This involves issues such as organizing the work environment as much as possible in open space premises and not seating senior management separately from the other staff if it can be avoided. Executives should spend as much time as possible working alongside managers and operational staff to show that they are accessible and flexible.

EMPOWEREMENT

Earlier I brought up the importance of empowerment in connection with engagement. It was established that empowerment is a central element of employee engagement. To a large extent, engagement is about empowering employees. But in contrast to the earlier faddish idea of empowerment, we in the context of engagement stress the need to take a complex and holistic approach to it. We stress the need to create the relevant conditions for enabling empowerment so that each employee will feel that he is backed up by management trust in using his powers and that he, from the other point of view, will clearly understand the limits of his authority, the framework and boundaries of the powers. Empowerment cannot be a free-for-all, and therefore needs the backing of a proper culture of engagement and self-discipline. There needs to be freedom within a framework.

I need to alert against a lapse in thinking which easily occurs when we speak about empowerment. Often the concept is taken to mean only (situational) decision making. And certainly such decision making, for a quick reaction to customer service needs, dangers to security, and other immediate risks, is an important aspect of empowerment. But the other side of empowerment, a more fundamentally meaningful one, is the involvement of staff members in business planning processes at each level of competence and in the immediate working environment. Involving employees at all levels in the planning and decision making processes serves as a fundamental tool of engagement. In a business organization the final decisions have to follow seniority but the planning processes need to involve all relevant people on various levels of business decisions.

Empowerment is closely related to the issues of corporate risk appetite. A proper level of empowerment in a culture of engagement will adapt the corporate risk appetite to the levels foreseen by the strategy. Getting the risk appetite right on all levels of seniority and competence is one of the most fundamental issues of leadership, and one of the most difficult ones. Too often managers, and especially those in charge of control and reporting functions, misunderstand the question of risk and proceed from the premise that risk needs to be minimized. But business is not about avoiding or minimizing risk. Business is about optimizing risk! You have to strike the right balance for your strategic risk appetite and actions.

EFFICIENT PROCESSES

In a culture of engagement all business processes need to be meaningful, maximally non-bureaucratic, transparent, and predictable. This concerns all rules, policies and procedures, as well as control functions.

A business should be directed by principles and guidelines instead of manuals and rulebooks. The former represents the ideas on which a self-organization is built, whereas the latter represents the rigidity of hierarchy and bureaucracy. I do not mean that no rules would be needed, rather that business leaders must constantly re-evaluate procedural requirements to make sure that no rule exists merely for its own sake. Some fixed rules will, naturally, be necessary for the purpose of security (including internal, external, physical and financial), as well as the purpose of compliance with laws and regulatory prescriptions. And they have to be adhered to as long as they are in force, but management needs to continuously challenge the validity of these kinds of rules as well.

All rules and procedures are usually established in response to an organizational (or production) need. The problem is that when the needs change, the executives in most cases ignore the need to change the old rules and procedures which were designed for past conditions which may no longer exist. This residue of old rules creates the backdrop for bureaucracy. Therefore a company should continuously run a program of reviewing (auditing) its rules portfolio and challenge their need. And for this purpose executives must encourage employees to continually question the status quo – to question systems, processes, direction, and management.

Another problem with rules and procedures is that connected with control functions. One of the curses of large multinational corporations is that they require a lot of control reports from their employees, who end up spending a considerable amount of their energy and working time on these often frustrating reports. Very often those kind of reporting requirements serve no other function than satisfying the rule and the controller. (This is also a problem that is aggravated by the procedures that are required by the dominant audit firms and their ever expanding check-lists.) In our opinion a company should do away altogether with all reporting requirements that are designed specifically for control purposes. Instead all the control functions should be integrated in the business processes. All the necessary control reports should be produced automatically, as part of recording the events that are connected with the direct performance of business transactions (processes).

An important aspect of rules and reports is that they have to be enforceable and enforced. If you have a rule you make everybody follow it, and if it cannot be followed you abolish or amend it. If you have a reporting obligation, then you make sure everybody reports, and if you don't get in those reports, then you have to verify whether the reporting procedures

are adequately designed and expedient. It is also necessary to de-bureaucratize the reporting requirements to ensure that these systems and procedures serve a real purpose. All data that is collected through reports must be utilized for steering the business or ensuring compliance.

Feedback is crucial to all of these issues of complying with rules and reporting functions. If the executives or managers, as the case may be, don't have time or interest in giving feedback on reports or procedural issues, then it is a clear sign that either the rule or the manager (executive) should go. A system for getting feedback from those that collect the reports to those that file them must be established. Reports have to be analyzed between the manager and the subordinate and any other people who are affected.

The design of all business processes and practices should be subordinate to the need to continuously build organizational capital, that is, the value that comes from documenting and learning from past actions. A part of this effort is the need to establish best practices for all business activities, processes and procedures. This accumulated wealth of organizational capital directly bears on efficiency and quality, and therefore the financial results of the company.

In the Soviet Union accounting was a function which was solely performed for the purpose of reporting to the state financial planning committee on fulfillment of the state plans, and for statistical purposes. There was then no culture of reporting to the shareholders, which is only natural because there were no owners except for the state (and in fact, the reports to the state planning committee were actually reports to the one single owner). It is still the case today that Russian reporting practices are greatly informed by the idea of reporting to the state; now it is to the tax authority. But this means that shareholder and management reporting are greatly neglected. The problem is that in a business organization you cannot live without proper reporting. Things will go wrong if you don't get your reports. In Russia there are, however, many business owners and CEO's who don't realize the need for properly organizing the reporting processes. But they certainly want to know what is going on. This is a dilemma that creates a lot of frustration in organizations. In lieu of proper systematic production of reports, the unorganized CEO gets ad hoc impulses to receive a report on one or another aspect of the business. He then issues angry orders with strict deadlines to get the report. To produce the needed reports the organization goes into panic mode and starts to pull the needed information together. Naturally nothing of great value can come out from such reporting practices that are not based on the principle of double entry. The quality of the reports will remain dismal, and the CEO reacts by screaming at his subordinates in the futile hope that such behavior could remedy his failures as a leader.

ORGANIZATIONAL STRUCTURE

Introducing the issue of organizational structure, I am again reminded how interlinked all these drivers of engagement and corporate culture are and how difficult it is to put them in the correct order of priority. This is because a proper culture of engagement is not conceivable without a proper modern organizational structure which rejects the old hierarchical model of organization. Obviously some level of hierarchy is necessary when a large number of people work together but the hierarchy has to be kept to minimal levels.

A *modern* organization of engagement is based on the principle of self-organization of self-motivated and self-disciplined people. (Admittedly it would be better to speak, instead of a *modern* organization, about *tomorrow's organization,* as so few are still organized according to these principles.) All efforts in organizational design need to go towards developing the most important organizational principle: teamwork. No one individual possesses all the needed knowledge. What is needed is an environment that allows the individuals to merge and utilize their combined competencies. This requires a maximally lean and flat organization which applies the principles of *organization by projects*. I will also refer to this as *project organization*, but this may lead people to confuse this idea with the habit of organizing temporary structures to handle important temporary work usually connected with development or a launch or other such special tasks: in other words, a project for which you set up a specific organization beyond the normal organizational framework. This is not strictly speaking what I have in mind. Rather I mean that each (normal) task, big or small, for example, each client assignment, should be considered as a project. In this idea all the employees of an organization are considered to form a competence pool which you tap to put together a team that is most suitable for the given task. One person is appointed to manage the project. His authority is thus derived from the project leadership and not from any hierarchical position in the organization. Another aspect of project organization in the modern world is, of course, to organize the project teams as cross-functional virtual teams, which work dispersed all over the country, or even globally. Some teams are more or less fixed over extended periods while others form spontaneously in a self-organization. Such teams involve not only employees of one organization (legal entity) and are formed globally across organizational boundaries to involve customers, subcontractors and other stakeholders.

Almost all functions of business can be divided into so many projects, and therefore the project organization principle can be extended to cover all the operations. This also has to do with the principle of *management by processes* (which is not the same as *process management*). Due to the increasingly unfixed nature of business demands, management must constantly review the work from the point of view of the business processes, as opposed to the traditional approach of viewing the business from the point of view of the various functional departments of a traditional organization. The connection between organization by projects and management by processes is also such that some of the

recurring functions, work that is continuously done by the same people in a standardized fashion (such as work on a production line, or service at a cashier desk) would be better conceived in terms of processes rather than projects. A modern organization needs to be a process-focused organization in every aspect.

Virtual teams and project organization represent the latest organizational development stage replacing the increasingly outdated matrix organization. It is interesting to note that the matrix organization is itself a relic of the hierarchical organization[40]. The idea of the matrix was to distribute hierarchy over a more complicated (usually global) business structure with separate lines of responsibilities on the functional level, regional level, and level of the business unit. But now we need to let go of hierarchy altogether.

All this requires a networking style of management as opposed to the traditional hierarchical top-down organization. A networked organization is structured in the form of loose and fluid arrangements of technology and people who work in self-managing teams which function with great autonomy.

Because I prefer to avoid all hierarchical concepts and ideas, I also opt to speak about *seniority* and *competence level* instead of hierarchical titles and positions. In a self-organized project, organizational seniority refers to the levels of competence which come with skills and experience and can be put into use in any particular project as the case may be. In self-organization very few positions of seniority need to be enforced by job titles and other hierarchical status boosters. But I do not mean that I would consider that an organization could exist completely without any hierarchy, some differences in formal decision making power are needed. I would rather compare the authority thus given with that of a judge, one who has a final say in a difficult matter and who can weigh in when needed but not be hovering all the time over the organization in an immediate commanding role. Certainly a self-organization needs such anchors of authority to chart the relationships.

It is also important that the necessary level of the decision-making hierarchy does not spill over into a social hierarchy (as it so often unfortunately does) where the executives and managers are extended unwarranted perks and privileges. Throughout history, and in badly run firms of today, there have been attempts to compensate for a lack of natural leadership and authority, which is earned by deeds, by propping up the stature of chiefs and managers through symbolic material and social privileges. But if true engagement is to be achieved, then the leaders and managers have to earn their authority by merit and deeds. The successful ones should be sufficiently compensated for that, but it is important that the compensation comes as a reward for their competence and achievements and not in the form of perks to prop up their ego and status in the eyes of the collective.

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[40] Macleod, Brady: The Extra Mile. 2008. Prentice Hall

The implementation of these principles of modern organization will cause a serious dilemma for employers and employees, that is, the *end of promotion*. These principles are sounding the death knell to the very factor that keeps it together, the promise of promotion. Most people are invested, based on the social expectations inherent in most cultures of the world, in the ideas that the most important thing at work, or in life, is to achieve organizational promotions and the titles and social recognition which come with them. In this sense we will in fact reach the end of history. Lean and flat organizations don't have the hierarchy which is necessary for maintaining the culture of promotions. With promotions come titles, social recognition, power, and of course money. But the modern lean and flat self-organization is based on completely different principles. People don't manage other people based on hierarchical status, but in projects based on competence. There will quite simply not be so many hierarchical management positions around to fill. In fact, in properly organized teamwork there might not necessarily be a manager in terms of traditional power hierarchy. Rather the teamwork requires that self-disciplined people negotiate their interactions. Employers will therefore lose one of their simplest trump cards for employee commitment, tying them to the organization with a position, subordinates and turf to protect, and the social recognition which comes with that. And employees will lose the chance to look forward to promotions to celebrate with a dinner among family and friends. But at the same time we must keep in mind that in a true culture of engagement we employ people who are not motivated by these status issues, or only to a small degree. Fundamentally they are motivated by other things: for example, interesting work; the development of *competence seniority*; the challenge of moving on to more demanding tasks and serving more knowledgeable customers; the authority they gain as specialists in their field; or perhaps by the very idea of working in a modern organization. We move *from power of position to power of knowledge*. And of course the engaged people care about their material compensation, as well, and that will grow with the growth of competence and the firm's success. For this reason employers need to get rid of the practice of tying pay increases to promotions; rather, what is needed is to connect pay and material compensation to continuous monitoring of development and tasks handled by the employee.

I am not advocating a titleless organization here. As I have pointed out quite frequently, some level of hierarchy is needed and there may be titles to reflect that, and there may also be titles to reflect critical job functions, such as, for example, CFO. On the other hand it is also feasible, and in most cases recommended, that people are assigned new responsibilities without a change of title. In a modern organization, I think that the titles are mainly needed for external consumption, as marketing devices to raise the importance of the person that you put in the client interfaces. In fact, we have seen this external use of titles already for decades in the form of the myriad vice-presidents that American firms employ. But it is of greatest importance not to let the external usages confuse the real

internal organizational needs. The best people will always be driven by their desire to take on responsibilities, not titles.

The highest level of employee engagement can be reached in a self-sustainable culture of engagement which is built on the pillars of self-organization, self-motivation, and self-discipline. Such an organization is low on hierarchy, low on bureaucracy, low on prodding and control, and low on micromanagement. The paradox is that a lot of 'self' makes for a good team.

Stakeholder engagement. In today's world, business is produced more and more by the joint efforts of a number of companies or independent contractors in processes of networking or outsourcing. This means that the business is performed by extended organizations that go beyond the corporate frontiers. This is also why the efforts of engagement have to extend beyond the limits of the company's own organization and reach out to the networking and outsourcing partners as well. In this endeavor, the people or each organization involved should follow the principles of engagement also with respect to the people from the other organizations.

Engagement and empowerment are connected with the issue of a democratic workplace. Here it is very important to be clear about what we mean by *democratic*. To my mind it is completely misleading to confuse democracy of the workplace with the electoral democracy of a political system. All employees cannot have an equal vote in decision making; attempting such a system would lead to disaster. In a corporation it is clear who holds the votes – the shareholders are the ultimate decision makers. They exercise their vote at general meetings of shareholders and appoint a board to oversee the operations of the company, thus delegating their votes between annual meetings to the board. The board in turn delegates the vote to the general director (CEO) between its meetings. There are no other votes in the firm. But I would venture to say that everybody should have an equal say in the matters that concern his own immediate work. By equal say, I mean the opportunity to frankly and candidly voice his opinion. And this should not only be a right but an obligation of the employee and thus an obligation of the superiors to actively solicit those opinions and create the conditions in which they are naturally voiced.

Thus a corporation cannot be democratic in the true sense of one vote for each staff member; but it needs to be liberal in the sense of letting all voices be genuinely heard. And it needs to be fair: an organization where people respect each other, and especially where the executives respect the subordinates in a system of reciprocated contributions.

The beauty of a self-organization is that it also works as a self-propelling control function. It automatically rejects the people and the kinds of behavior that do not reflect

the values of the organization and its transparent business practices. A properly functioning self-organization encourages transparency and combines inputs across the whole organization. Nobody acts alone with suppliers, customers, banks and stakeholders, and therefore real-time information of all operations is available to a number of actors, and malpractice and/or poor quality is immediately recognized.

SELF-DISCIPLINE

Self-organization is not possible without self-disciplined people. Self-discipline comes from within the individual, while discipline is implanted and maintained from outside. (This is similar to what was said above about intrinsic and external motivation.) The bad style of totalitarian cultures is about *discipline*, which is externally reinforced by fear. Self-discipline is brought about by engagement, but requires that the company hire and retain the people that manifest the qualities which can be harnessed for self-discipline.

Self-disciplined people display entrepreneurial spirit even in a large organization. Within a defined framework, they are free to take decisions and act to the best of their abilities in the company's best interests. The framework consists only of guidelines, instructions, pronounced constraints and systems that are necessary and reasonable, whereas rigid rules and narrow job descriptions are reserved for exceptional cases only.

In this connection I am reminded of Jim Collins' insight on the importance of having the right people on board and the three central elements of culture: disciplined people, disciplined thought, and disciplined action. You bring in the people that you recognize to be self-disciplined and self-motivated and let go of those that don't cope in an environment of self-organization. Managers should not waste time trying to discipline the wrong people into behaving the right way. Instead you hire self-disciplined and self-motivated people who do not need to be micro-managed. The alarm bells should sound as soon as a manager recognizes that he has to spend time on micromanaging a subordinate (above what is reasonably needed for normal introductory work and coaching.) Few dare to say it out loud, but the fact is that nothing demotivates a team like having to put up with those who are not contributing.

In a culture of self-discipline you don't need to manage the people all individually; rather, you manage – lead – the system.

Jim Collins, in his *Good to Great*, extols the virtues of a culture of discipline. He identifies three elements as central to creating this culture:

(i)   Disciplined people – the importance of having the right people on the team
(ii)   Disciplined thought – understanding the company's strengths and weaknesses
(iii)   Disciplined action – take action based on that understanding

All of these elements are equally important. Where we have disciplined people, we do not need hierarchy. Where we have disciplined thought, we do not need bureaucracy. Where we have disciplined action, we do not need excessive controls.

TOTAL FOCUS ON CUSTOMER SATISFACTION AND QUALITY

Total focus on customer satisfaction needs to serve as the main organizational principle. Every staff member, every manager, every executive, must understand that in the final analysis, the company exists for the sole reason of serving satisfied customers, who generate the revenue needed to keep the company going. The company must be organized for the purpose of meeting this overarching goal of delivering superb customer service. And nobody should be shy about the fact that this purpose requires that the company have a total commitment to sales, a total commitment towards selling its products and services to satisfied customers. This is not only a job for those that interact directly with the customers - the sales people and account managers - but a job for the whole organization. The winning principle must be that the whole organization, whatever the function of the individual, has to take responsibility for satisfying customer needs, whether replying directly or putting the customer in touch with the relevant specialists. The support functions, all the way down to accountants and lawyers, should be designed to directly contribute to satisfying the customers. Ensuring that existing customers are satisfied with products and services, and the continuous effort to attract new customers by sales efforts, are the two most important activities in a business.

It comes as no surprise that a self-organization is best equipped to reach this goal. In such a culture people naturally orient themselves towards what is most important, which is, as everyone knows, the clients. This tendency can be enforced by executives continuously demonstrating the importance of customer satisfaction by actively communicating the results of sales efforts and customer satisfaction, remembering to celebrate sales victories of the team and the sales heroes that have been instrumental in delivering them.

A customer-oriented organization is by definition already quality-oriented. But beyond that, the company needs to commit itself to an ever improving total quality-management system. Quality, here, refers to the level of service delivered as well as the goods produced.

Here it is worth repeating what was said above: that employee surveys focusing on identifying drivers which enforce engagement have shown that employees are naturally concerned about customer satisfaction. Employees tend to be more engaged and satisfied when they experience that the company's, and their managers', focus is on customer satisfaction and quality. And from this follows more engagement and yet more focus on customers – a feedback loop that pushes up both employee and customer satisfaction!

BEHAVIORS REQUIRED FROM LEADERS AND MANAGERS

In modern management theory experts want to make a distinction between *leaders* and *managers*. The idea seems to stem from Peter Drucker[41] and has been influentially advocated by John Kotter[42].

But although I understand the reasons for why these authors want to make this distinction, I cannot quite agree with them. This distinction fuels the very problem of hierarchy, creates conceptual confusion, and at the end of the analysis is simply wrong. (Let me point out that I very highly value the inspiring books of Kotter and Collins, so I hope that the criticism of this point will not overshadow my esteem for them.)

According to the modern management theory dichotomy (below in Kotter's words):

- **Managers** are said to focus on running the operations within the strategic framework that has been staked out by the leaders. Managers focus on planning, budgeting, organizing and staffing, controlling and problem solving.

- **Leaders** are said to be establishing direction by developing the vision and strategy; aligning people; motivating and inspiring

Similarly the management scholar Warren Bennis in his book *On Becoming a Leader* delivered a list of the supposed differences between a manager and leader in this vein[43]:

– The manager administers; the leader innovates.

– The manager is a copy; the leader is an original.

– The manager maintains; the leader develops.

– The manager focuses on systems and structure; the leader focuses on people.

– The manager relies on control; the leader inspires trust.

– Etc., etc.

By stressing this supposed distinction between "managers" and "leaders" people may be induced to think that you should appoint either "leaders" or "managers." However, simultaneously the adherents of this theory of distinguishing between these concepts de facto determine them according to hierarchical considerations where "leaders" hold more senior positions in the organization than "managers." In this thinking, "managers" are the executives of support functions and the category of people usually referred to as the "middle management." But the fact is that managers are the future leaders. With

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[41] Drucker, Peter: The Practice of Management. 2007. Butterworth-Heinemann
[42] Kottler, John: Leading Change. 1996. Harvard Business School Press
[43] Bennis, W. (2009), On Becoming a Leader, New York: Basic Books, p 47-48

experience and competence a manager may reach the position of leader; she becomes a manger with a larger scope of responsibilities. Obviously not all managers reach leadership positions, but all leaders are former managers. In a good organization, usually those managers who act more like a leader become leaders (that is, an executive) and the best of them may ultimately end up as CEOs. But more properly we should recognize that this is only a question of scope and extent: A manager is also a leader in relation to the people he manages. To be a "leader" then is a quality of a good manager.

So, in fact, the perceived difference between these "managers" and "leaders" are in fact only differences in the level of seniority and scope of organizational responsibility. The higher one moves up in the organization, the more one has to deal with all the general issues crucial to business. And it is in this aspect that Drucker and his followers are right: the need to stress that the executives and especially the CEO need to focus on core issues such as vision, guiding principles and strategy. Each manager has to be concerned with implementing vision, contributing to strategy, aligning and inspiring the team, and similar activities. But what would happen if all the "managers" just dropped their "dull duties" and devoted their time to full-time philosophizing about leadership!

In view of the above, I would propose to bring clarity to this terminology by calling the more junior managers "managers" and calling the members of senior management "executives," and hope that they would all be good leaders on their proper level of seniority and competence. We need to recognize that both "managers" and "executives" need to demonstrate leadership, the competence of a leader.

And here it would be more correct to make a distinction between managers/leaders and experts (specialists). An expert with special knowledge or skills in a certain function which is crucial for the business is not necessarily competent in management (leadership) functions. And indeed many organizations fall into the trap of appointing a valuable expert devoid of management competence to managerial positions. This is caused by the inability of the relevant executives in charge of the appointments to distinguish between management skills and specialist knowledge; often they do it out of organizational desperation because in their hierarchical mode of thinking, they can't come up with any means of committing the valuable expert other than by promotions driven by considerations of social status. Often such appointments serve as a recipe for disaster both for the organization and the person in question. And therefore the company should instead make other arrangements for engaging the valuable specialists precisely in accordance with the principles of engagement set out in this essay.

I therefore think that the definitions assigned to "leaders" by Kotter et al. are actually mainly the definition of the *role* of the CEO.

Increasingly a CEO should recognize that she should include among her most important priorities the quest for creating the desired corporate culture designed to deliver the strategic business behavior. Even in a large corporation the CEO needs to be the standard bearer of the entrepreneurial spirit; he needs to fight against the creeping bureaucratization that always threatens to take over an organization. For this to happen there need to be strong leaders who can break through the resistance to change which is cemented in the managerial status quo.

We can summarize the CEO's role as that of implementing the chosen strategy of the company. He has to enact the strategy in practice. To do that he has to get all the other executives, managers and staff to understand the strategy and ensure that they all want to give their very best to implement it. In short, he has to engage them. The strategy has to be implemented by engagement.

This is done by implementing all the principles of engagement. But the CEO also has a great personal role to play in this. He has to walk the engagement talk and serve as the prime example of an engaged employee, so as to inspire engagement in the others.

A very special stress has to be made here on the CEO's communication style. She has to set the tone at the top for the whole corporate communication style. She needs to demonstrate the main organizational principles in action: trust, fairness and respect. And she must lead by example, demonstrating the importance of urgency, feedback, proper delegation, and recognition.

The behavior of executives is monitored within an organization like that of celebrities, and therefore an executive needs to think not only about his intended, conscious, acts of communication but also to pay attention to his total demeanor, such as non-verbal communication. Tone of voice, facial expressions, level of eye contact, and even body movements form the impression of the executive in the eyes of the employees. Did the executive say hello to all the staff members he met on the way to his office? Did he jump the line in the canteen? Does he even visit the canteen? And so on.

It is natural to think that executives are more engaged than employees on average, but the surprise is that studies have shown that the levels of engagement among executives are nothing spectacular either. One study showed that engagement on the level of senior executives was 20%, compared with 9% on the level of non-management[44]. The ultimate leaders of an organization need to tackle this problem. The executives are the role models for the rest of the staff; therefore they need to be engaged before you can expect engagement with the rest of the staff.

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[44] Macleod, Brady: The Extra Mile. 2008. Prentice Hall

Statute of the founder of Moscow Yuri Dolgorukiy, Yuri the Long-Armed, shown leading the people by his arm gestures. Aptly so for a people in whose language the word leader, rukovoditel, originally means driving or leading by hand.

INDIVIDUAL DRIVERS - QUALITY OF LIFE

Above we dealt with issues that may be considered external conditions of the work environment in respect to the individual. Now we shall deal with the individual conditions, or drivers, those that immediate affect the individual employee. (Although we should remember that in a culture of engagement each employee makes his contribution to the culture or the work environment, so these issues can never be divided too sharply into external conditions and individual conditions.)

With the engagement literature the question of quality of life has emerged as a relevant issue directly affecting even productivity. Earlier the idea was more or less to squeeze as much out of the employees as possible for as many hours a day as possible. Only labor laws and unions served as a deterrent. But for executives and managers to whom legal protection is not (de facto) extended, this continues to be the norm. In any case, today some forward-looking leaders and consultants (engagement scholars) have recognized that such kind of exploitation of people is not in the best interest of the firm itself. A multitude of problems follows from such policies: a decreased level of engagement; errors and quality problems caused by fatigue and loss of engagement; loss of productivity due to sickness; etc. The ultimate consequence in many unfortunate cases is the syndrome known as burnout. There are also difficulties in staff retention as the more competent people increasingly in today's world look for opportunities to work for companies (or as entrepreneurs or freelancers) that offer a better work-life balance. And as there now exist a critical mass of people who have successfully arranged so for themselves, people increasingly know that such a quality of life is attainable. The growth of development of the internet, social media and all connected IT solutions fuels this tendency. People share their life stories and advanced working habits in social media and feature stories, and more and more people want to follow suit.

An early development in this direction has been the regime of working flexible hours, the increasingly popular since the 1980's, whereby a person could choose to come to the office for a given number of hours but could choose the starting time within certain limits. The next line of development here is only starting to take root. This is total flexibility, when the person is not even asked to report to an office if there is not an actual necessity for it. A person may prefer to work on a project assignment, reading and writing at home, or in a café on the go. Most probably such working practices ensure better productivity. But! There is an important caveat to this: Such flexibility is only feasible in a self-organization of self-disciplined and self-motivated people. A part of the equation is that the managers for such staff have to be focused on the end result and therefore be able to monitor what the person who has been granted this flexibility actually produces.

An additional benefit from the extension of such practices is that companies will need less office space in the future. When you really think about it, it is a quite strange habit to have

people travel each morning at a certain time to an office where they have to sit and produce their work. Historically it has been necessary for the sake of communication and management. But thanks to the internet information, advice and instructions travel in a second from one part of the world to another. The office is not needed for that anymore. Interestingly we have noticed, and I am sure most readers can share the same experiences, that people sitting in the same office in any case actually communicate with each other on the most important issues by email (Skype, etc.), even if they sit next to each other. Even within an office people are on the move constantly, so this is only natural, and most often other people working remotely need to be involved in the communication anyway. I predict that the office as it is conceived of today will soon lose its present function of herding people together; rather it will become a central point of focus of the company (of teams) for conducting meetings with clients, external stakeholders and internal meetings, whereas most work will be done out of the office. Following this development and the realization of the added value that outsourcing of business administration functions and techniques such as cloud sourcing give, the office will also consist of increasingly dispersed facilities with various support functions located in various places. Goodbye, corporate tower!

THE JOB ITSELF

We cannot ignore the fact that for the individual, the job itself remains and will always remain the most important driver of engagement. For engagement to happen, the employee must have work that interests him and suits his capabilities.

The job has to be meaningful for the individual and offer him a sufficient challenge to meet his own level of competence expectations. For ordinary employees who are assigned specific job functions (front-line customer service, assembly line, support functions, etc.), it is important to specifically tailor variety in the job functions. But all the issues of a culture of engagement discussed in this essay are equally important for these so-called ordinary employees. It is a special challenge to properly empower these people who usually are the ones that customers most often come into contact with and on whom the implementation of quality depends.

The job cannot be meaningful if the *expectations* on both sides (manager and employee) are not clear. I purposely spoke about job *expectations* as opposed to job *descriptions*. The era of job descriptions has come to an end; they have no place in a self-organization. To be clearer, I would say that job descriptions with narrowly defined functions are outdated and in their stead should come documents that more broadly describe the expectations placed on the employee. Where needed (for example, due to security and compliance reasons), it will still be reasonable to spell out the necessary functions that have to be performed in a strictly prescribed manner. But for most jobs it will be more important to spell out the expectations, goals, and job targets.

We have to keep in mind that engaged employees in a self-organization are by nature multi-tasking and prone to expand their scope of work and responsibilities with the demands of the situation. They even let their job functions evolve in time with the evolution of the business. Self-organizing engagement requires people who are flexible to meet the broadly defined challenges that face them in business.

PAY AND REWARDS

When we speak about rewards, the pay, the salary and bonuses are what first spring to mind to most people. But there is increasing recognition that the opportunities for self-realization and development also represent rewards. Having the opportunity to work for an engaging company is recognized as a reward in itself.

People expect the employer to offer opportunities for personal development and self-realization. These include having the opportunity to learn new skills and practices; make use of individual talent; be offered the ability to take part in training on the job and in training programs offered by external training facilities; and career development. Remarkably, it has been established that engaged people even spend their own time and money for improving their job-related skills.

From times immemorial there has existed a very simple and effective way of rewarding people, but unfortunately few managers and executives use it as actively as they should: recognition. It does not cost anything to say "Thank you!" but the effect of it is enormous – of course, in a setting where it is genuinely given.

Studies have shown that material compensation in form of money (salary, bonuses) and perks is not a decisive factor for engagement as long as that compensation is on a comparably decent level[45] [46]. In a culture of engagement people usually don't leave the job, or at least do not actively contemplate doing so, due to reasons of material compensation. As Collins says: the purpose of a compensation and incentive system is not to elicit the right behaviors from wrong people, but rather to entice the right people to join the organization and keep them there.

[45] Collins, Jim, *From Good to Great*. 2001
[46] Macleod, Brady: The Extra Mile. 2008. Prentice Hall.

THE SOFT SIDE OF CORPORATE CULTURE

Earlier in this book I spoke about the "soft side" of corporate cultures. In that connection, I criticized what I regard as the misconceptions about the essence of corporate culture. Considering that and all the other ideas that have been expressed so far, I am not sure anymore that it would even be correct to identify the "soft side" under a special heading, as I had intended when I set out to write this book. In the process of writing I have gained more insight into the essence of engagement and corporate culture, and therefore it seems that all the things that have been traditionally identified as the "soft side" now merge into all the other issues, the "hard side," if you will. More truly, though, we should recognize that there is no "hard" and "soft" side; there are only wise practices that need to be followed in all human interactions.

Thus the heading for this section will have to stand as a milestone commemorating that insight.

In this connection I would also point out that it is no longer correct either to think that the Human Resources department should be seen in the role of developing the "soft side," in the sense of trying to be the "nice guys" as opposed to the "tough business people." This distinction needs to go. In today's world, and especially in this period of transition to a healthy corporate culture of engagement, HR should increasingly take the role of leading change. In doing so, the role of HR has to be elevated to a more strategic pinnacle in the firm, and the CHRO, chief human resources officer, should realize that his task is that of leading the efforts to align the organization to meet the strategic goals and engage people to do their best. The CEO needs to recognize the importance of HR in this respect. It is said that Jack Welch, the legendary former CEO of General Electric, marked this importance by elevating his HR to the role of main support and taking his HR director rather than the finance director with him on company visits[47].

HR functions in Russia are burdened by administrative tasks and their functions in policing the organization. Therefore HR functions are usually staffed by people who are knowledgeable in labor law and other HR administration issues. But if you want to modernize the organization you need to start with modernizing the HR function. The HR director and her team really need to take on the role of a true business partner of the operational managers. The easiest step to begin with is to outsource all the administrative service functions so as to let the people concentrate on what really counts: development of talent and a culture of engagement.

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[47] Macleod, Brady: The Extra Mile. 2008. Prentice Hall

CHAPTER 5

AUDIT OF CORPORATE CULTURE

AND ENGAGEMENT

AUDIT OF CORPORATE CULTURE AND ENGAGEMENT

Organizational consultants love to do surveys, but a survey is not always the right place to start. Especially considering the approach to corporate culture taken in this book, a survey would not necessarily even give the right diagnosis. Surveys, as I have pointed out, aim at finding out how the employee feels about the company, the job, the managers, and himself. Often this yields information in the genre of "nice to know." But does this all really generate a business value? Why should we assume that the employees can correctly judge the company's strategy and the challenges it faces, or what is wrong with the business processes? This is especially the case if the organization has not earlier actively propagated and implemented the principles of engagement. The various types of employee surveys that are on offer would rarely, if ever, give answers to the most important question, which is not the degree of job satisfaction of the employee, but the reasons for her low job satisfaction: that is, to show what is wrong with the business processes.

The proper way of developing a corporate culture is to work with all aspects of the company's entire corporate culture. This is in line with my conviction that a corporate culture is the aggregate reflection of all actions of a company, decisions and behavior of its management and all of its employees, as well as all the business practices and processes. The corporate culture is thus the sum total of all behavior and operating practices (whether formally sanctioned or not) of each individual employee as part of the collective of employees. We also need to remember that the concept of corporate culture should not be restricted, as is done by the typical organizational consultant, to psychological issues such as "the mindset and instincts" of employees and soft issues like corporate traditions and rituals. To remedy the corporate culture, we thus need to look at every element of the business in unison to understand which business practices need to be modified so as to bring about the needed change of culture.

We therefore offer to approach the question from a different point of view, from the point of view of leadership, if you will. This approach is based on a fundamental understanding of what affects corporate culture and engagement, as it has been presented in this book. Then instead of psychological surveys we offer to conduct an audit of how things are organized. Based on the corporate culture audit the leaders may then take action to remedy things. After all, if you focus on data gathering rather than taking action, you could actually damage your engagement efforts. Such a survey without action would actually negatively impact engagement levels.   An audit will help to elucidate what hinders the company in enacting a desired corporate culture and engagement and recognizing key areas of action.

Through a corporate culture audit, the company will identify the weaknesses in the corporate culture and help draw up a plan for upgrading it so that the company can reach

its full potential on the Russian market. For this, real business management skills are needed so as to identify and change the business processes that affect a company's culture. We analyze the key aspects of the company's business in terms of how they are organized and how they function and engage the best specialists in the relevant fields of business. At Awara a corporate culture audit team would consist of management consultants, organizational consultants, lawyers, tax specialists, accountants and IT specialists, as well as human resources specialists. We ask the question: is this company organized for success? And we look for obstacles preventing a business from reaching its full potential. We reveal what stops the company from having a modern and flexible business environment in which innovation can thrive.

Our work on the audit consists of an expert analysis of the key aspects of business by looking at the observable facts. Depending on the case, and the client's willingness, we may also employ a variety of other methods. These include formal and informal interviews with top management, middle management and specialists; questionnaires and surveys (yes, surveys can be one of the tools employed, but not the sole tool as is often claimed); focus groups; interviews with external sources such as suppliers, customers and former employees; and we may even act as a mystery shopper making test purchases of goods and services.

The culture audit report then describes the present status of the key drivers of the corporate culture and identifies problem areas. This concludes the audit part of the work. After the audit, we engage the company's executives in a discussion about our findings, and together we brainstorm for solutions. This process is carefully designed to allow leading executives to better understand their business and its place in the market. Details can be found in the chapter Strategic Planning (Appendix 1).

APPENDIX 1 - STRATEGIC BUSINESS PLANNING WITH AWARA

Awara offers a comprehensive service to help business leaders improve, clarify and articulate their business strategy and business plans. After an analysis of the client's current business situation and future goals, we engage the company's leaders and the executive team in strategic brainstorming sessions aimed at a crystallization of the best possible strategy. This process is carefully designed to allow the leading executives to better understand their business and its place in the market and the development of a roadmap for achieving these goals.

The strategy and any detailed business plan will have to be preceded by a well-articulated vision and mission. The mission is what the company does or wants to do; vision is what it wants to reach and strategy is how to reach it. In the strategy process we will make sure that the operations in reality are preceded by an articulated vision and mission statement, correspondingly adjusted in the process. Guided by their vision and mission statements, executives will consider what their company will do, where it fits into the current market, and how it will win in the competition. When they have arrived at their strategy, they engage all key employees, including middle management, specialists and all the operative employees in an effort to make the whole organization in reality driven by the strategy. They will foster a culture of strategic thinking.

VISION, MISSION, VALUES/GUIDING PRINCIPLES

Vision – Where we want to go. The vision statement is usually described as a short, succinct, and inspiring statement about the desired future. It outlines where the leaders want the company to be in the future.

Mission – What really is our purpose. The mission statement defines the main purpose and aims of the company concurrent to the vision. It specifies the business, products and services which the company will furnish in pursuit of the vision.

Values – or rather Guiding Principles. Many companies define and publish their so-called core values, which are supposed to represent fundamental philosophical convictions on morality and ethics. But an attempt to individualize these for a particular firm is always doomed to fail as all organizations are anyway supposed to follow the same broad categories of values. Therefore it will be more meaningful, and honest, to speak about *guiding principles* instead of values. That way we also avoid the kinds of slogans, platitudes and tag lines which most firms proclaim as their values. Guiding principles are down-to-earth principles regarding organizational structure, intended corporate culture, approach to bureaucracy, and other related things. They are principles that guide an organization throughout its life in all circumstances, irrespective of changes in its goals, strategies, type of work, or the top management.

The brainstorming and planning process makes use of a wide variety of alternative or complimentary methods for identifying the internal and external factors and parameters that affect the vision and strategy. Such methods are, for example, a SWOT analysis, to identify Strengths, Weaknesses, Opportunities and Threats; the PEST method, or something similar, to identify Political, Economic, Social, Technological, Cultural, Ecological, and Normative factors that affect the business environment; Scenario planning, etc.

The market and rivals are analyzed in terms of Michael Porter's five competitive forces framework for industry analysis and business strategy development [48]

1. Existing competitors (Competitors)
2. Entry of new competitors (Competitors)
3. Threat of substitutes (Product, Service)
4. Buyers' bargaining power (Clients)
5. Suppliers' bargaining power (Suppliers)

Through these steps we will grasp and define the objectives of the organization in terms of their importance, priorities, feasibility and time frame within which they can be reached. After this, short-term and long-term goals (milestones) can be charted.

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[48] Porter Michael, Competitive Advantage, 2004. Free Press

PORTER'S FIVE COMPETITIVE FORCES

Existing competitors:
- Industry growth
- Fixed (or storage) costs/value added
- Intermittent capacity
- Product differences
- Brand identity
- Switching costs
- Concentration and balance
- Informational complexity
- Diversity of competitors
- Corporate stakes
- Exit barriers

Entry barriers:
- Economics of Scale
- Proprietary product differences
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Absolute cost advantages
- Proprietary learning curve
- Access to necessary inputs
- Proprietary low-cost product design
- Government Policy
- Expected retaliation

Substitutes:
- Relative price performance of substitutes
- Switching costs
- Buyer propensity to substitute

Buyers' bargaining power:

Bargaining leverage
- Buyer concentration vs. firm concentration
- Buyer volumes
- Buyer switching costs relative to firm switching costs
- Buyer information
- Ability to backward integrate
- Substitute products
- Pull-through

Price sensitivity
- Price/total purchases
- Product differences
- Brand Identity
- Impact on quality/performance
- Buyer profits
- Decision maker incentives

Suppliers' bargaining power:
- Differentiation of inputs
- Switching costs
- Presence of substitute inputs
- Supplier concentration
- Importance of volumes
- Cost relative to total purchases in the industry
- Impact of inputs on cost and differentiation
- Threat of forward integration relative to threat of backward integration by firms in the industry

STRATEGIC CORE

In the strategic planning we really try to reach the strategic core, or what Jim Collins has identified as the three main elements of strategic thinking[49]. These are the key dimensions of strategic thinking which should simultaneously serve as a frame of reference for all the main business decisions:

1. What the company can be really good at.

2. What the economic drivers of the business are.

3. What you are deeply passionate about.

Each firm should determine for itself what it has the potential of being the best at and then go for that. This is not even necessarily the same as the company's present core competence. Just because a firm has a core competence, does not mean that it is what it can be the best in it. To achieve excellence, you might even have to drop the field of your present core competence and develop a new one. With understanding what you can be the best at comes also an understanding of what you cannot do better than any other company.

The economic drivers are the parameters which measure the events that have the greatest impact on the business success. Such economic drivers are, for example: "profit per customer," "profit per store," "profit per customer visit," "profit per employee," "profit per brand," and "profit per ton of steel."

When we refer to what you are passionate about, we mean the shared passion of the company and its key constituents. This is not a question of *stimulating* passion, but of *discovering* what you are passionate about. Ultimately the leaders have to be able to ignite the same passion throughout the organization.

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[49] Collins, Jim. From Good to Great. 2001

ACTIVITY BASED

In the process of strategic planning we adapt Michael Porter's activity based method of analysis building on his insight that a firm is a collection of activities[50]. In keeping with this view we aim at identifying the distinct set of activities that make up its value chain. We need to analyze the structure of activities and their costs. In this way strategy does not amount to a broad vision, but rather the particular configuration of activities a firm adopts relative to the competition and its market. The strategy will then consist of targets and actions that should easily translate into an action plan that can generate a roadmap. They can be either specific or general, and should always be concrete, realistic (achievable) and time-limited. The activities shall be grouped as components of the value chain consisting both of operational (primary) and support activities. It is useful to analyze the activities in terms of the product life cycle (from inception to delivery). The activities may be grouped into, for example, the following categories:

- Marketing
- Sales
- Design
- Logistics (inbound)
- Operations
- Production
- Logistics (outbound)
- Distribution/delivery
- Operations (production)

- Service
- Inspection
- Quality assurance
- Maintenance
- After-sale activities
- Human Resources
- Accounting
- Law
- IT

It is a question of determining the competitive advantages in terms of all the activities and the optimal way of producing them from the point of view of cost, quality, management structure, organizational design and feasibility. The firm has to determine what competitive advantages it is seeking, how to differentiate its products and services, and which customer (product) segments to focus on. Where does the firm's uniqueness lie: in sales, marketing, technology, design, or something else? What are the real expectations of customers in general and in particular?

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[50] Porter, Michael. Competitive Advantage, 2004

A CULTURE OF STRATEGIC THINKING

It is no good having a strategy if the people that you rely on to implement it don't know the strategy and the goals you are pursuing. You have to align your people with the strategy and communicate to the organization what people on respective levels need to know about the strategy. All individuals have to be made aware of the new strategy in terms they can understand. They need to feel the commitment to the strategy as their own. This is why you need to engage your whole organization to put the strategy into practice. By applying the principles of engagement the leadership has to put in place a *culture of strategic thinking*. This is an environment where people know the strategy, its background, the future goals you pursue and your guiding principles, and where they are encouraged to actively contribute to the strategy by thinking and expressing their thoughts in terms of the strategy. At each level people need to have the means of translating the strategic goals and objectives into day-to-day projects and tasks.

A firm is a collection of activities, the results of which is based on the behavior of its staff

APPENDIX 2 – VISION, MISSION AND GUIDING PRINCIPLES OF AWARA[51]

Mission

We deliver the best business administration services in Russia, Ukraine and the CIS

We offer the best customer service.

We strive to be the quality leader in business administration services.

We strive to be the technology leader in business administration services.

We strive to be the cost-leader in business administration services.

Awara Vision

We bring diverse people together and forge them into a team that will make a real impact and a value added contribution to the businesses of our customers.

We don't just follow best practices – we establish them.

Our Guiding Principles

In our services we are committed to integrate business administration processes with the operating processes.

We strive to build a relation of trust with clients and employees

We strive to be fair with all stakeholders.

We build long-term relations with our clients and engage our employees and all stakeholders in our business.

We have a practice of transparent pricing and contract terms. No hidden clauses.

We tell the truth as we see it.

We are committed to fighting bureaucratic practices in all their manifestations both internally and externally.

Protecting the confidentiality of our client's business is of highest priority for us.

We are committed to a continuous evolutionary change to cope with the changing world. Due to our continuous change we avoid dramatic revolutionary reactions.

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[51] http://awaragroup.com/en/our-vision-and-values

Corporate Culture

Engagement. We recruit and retain employees that have the potential of embracing our culture of engagement.

Our people are self-motivated and self-disciplined who demonstrate:

- Conscientiousness
- Enthusiasm
- Accountability
- Persistency
- Proactivity
- Adaptability
- A sense of urgency

We want to offer:

- a stimulating work environment
- a relation of trust and fairness
- a chance to grow in competence and skills
- work-life balance
- adequate material compensation

Self-organized people. Our culture of engagement is built on the efforts of self-organizing people.

Virtual project teams. We run a flexible low hierarchy organization organized on the principle of virtual project teams where each client assignment represents a project.

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