Cultural Consonance vs. Cultural Dissonance: The Role of Culture in Institutional Success and Failure

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ABSTRACT

Western audiences rarely get a glimpse of alternative explanations of events in Russia – explanations outside the paradigm of judgmental Western universalism and which are largely political in nature. Without cultural content, such conclusions are perhaps inevitable given the absence of crucial factors that most scholars acknowledge play a large role in institutional behavior. This article proceeds from the assumption that a society’s institutions are derived in large part from the cultural subsoil of that society and take on the society’s cultural characteristics, both in form and in function. Moreover, they grow organically and are not simply manufactured in isolation from the circumstances in which they function. Here I introduce the notions of cultural consonance and cultural dissonance, and I contend that for economic and business institutions to function properly, they must be rooted in the culture that spawned them organically. Different paths to development exist, and much of the character of these paths can be discerned in the latticework of specific cultures. Part of this latticework is the constellation of institutions that comprise society – business institutions, financial institutions, social institutions, educational institutions. To demonstrate the major aspects of this thesis, the 2003-2005 case of the Yukos Oil Company in Russia is examined.

INTRODUCTION

What happens when institutions that are developed in one country are transplanted into another country, where the requisite supports are not present? What happens when there is a misalignment between the culture and the institutions, where the institutions yield results that are not consonant with the larger societal context or history? This article proceeds from the assumption that a society’s institutions are derived in large part from the cultural subsoil of that society and take on the society’s cultural characteristics, both in form and in function. Moreover, they grow organically and are not simply manufactured in isolation from the circumstances in which they function. Here I introduce the notions of cultural consonance and cultural dissonance, and I contend that for economic and business institutions to function properly, they must be rooted in the culture that spawned them organically.1 If the requisite cultural supports are absent and there is too great a distance between the alien institutions and the host culture, the host culture will eventually reject the institutions or they will be transformed into more a culturally acceptable form. To demonstrate the major aspects of this thesis, the 2003-2005 case of the Yukos Oil Company in Russia is examined. This article’s thesis has major implications for the role of culture in impacting innovation, organization structure, and organizational behavior, among other aspects of operations in an increasingly globalized international economy.

Academic Disdain for Culture as Variable

Culture exerts impact in virtually every phenomenon we study – from politics, to economics, to sociology, to religion. Most scholars would agree that culture’s influence is real, certainly in the realm of institutional development. Economists such as Douglass C. North have found a place for culture in their economic models. For North, culture is part of a matrix of “informal constraints.” He draws a distinction between the formal rules of institutions that human beings devise and the “informal ways that human beings have structured interaction.” These “informal constraints” that sometimes persist through centuries “come from socially transmitted information and are a part of the heritage we call culture.”2 While acknowledged in the abstract, however, cultural explanations do not carry far in the social sciences in contemporary academia.3 “Culture” as a concept and variable is considered vague, and it engenders debate over its very definition.4 Although we have some good ideas on the matter, we are not even quite certain exactly how culture is
transmitted between generations, *what*, exactly, is being transmitted, and *how strong* its influence. Moreover, there is question as to how “culture” actually exerts its influence in the choices people make, the institutional structures they build, and the repertoires they develop to guide those institutions in their daily functioning. Culture is difficult to measure, its effects difficult to quantify, and results are sometimes tautological. Rightly or wrongly, cultural analyses are considered less rigorous, perhaps less elegant than are puzzles more tractable to measurement and statistical analysis. As a result, cultural explanations for economic and political phenomena went out of vogue in the social sciences with the advent of serious quantitative analysis in the 1960s and 1970s. A revival of sorts took place in the mid-1980s, with scholars bringing cultural explanations to issues of military strategy, political development, modernization, and the like. But lack of “rigor” remained an issue, and this brief revival was met by a strong reaction among scholars less invested in the approach. Sharp divisions exist today in the academic community over the role of culture in the social sciences.

Likewise, culture as a variable has traditionally been given meager consideration in the business world. In this respect, business analysis echoes the social sciences. Culture is difficult to define, difficult to quantify, and difficult to assess how it impacts the bottom line of profit or loss. Cultural differences between firms can negatively impact the success of a business if they are not taken into account in conducting the affairs of the business. Moreover, managers can find little in the nation’s business schools to contradict this anti-cultural attitude. The hesitancy to give a hearing to cultural factors is shared by many faculty in business schools, who have increasingly transformed their discipline into something akin to sociology or political science. “Most B school professors still limit their sights to what they can measure readily,” say the authors of a *Harvard Business Review* article. Thus, business school faculty are led toward the same bias afflicting the social sciences: “Of course, this bias affects everyone, not just scientists, but the aura of quantification masks the fact that social scientists often assume that the variables not included in their equations are insignificant.”

Systematic exclusion from study of a factor that everyone acknowledges has a major impact would seem unacceptable, yielding skewed results at best and masking major causes and influences at worst. Let’s introduce a basic cultural model and demonstrate the added value and critical depth such an approach can yield.

A Cultural Model

Scholars studying culture’s impact on institutions provide a number of cultural modes of analysis that can inform us to the influence that cultural consonance or dissonance. One of the most venerable and venerated frameworks is the Dimensions of Culture developed by Dutch researcher Geert Hofstede.

Geert Hofstede’s thesis is deceptively simple but not simplistic – national cultures differ from country to country, and the national culture in a given state profoundly influences how people organize themselves to do business. This means that cultural differences can lead to differently structured business institutions and behavior. The differences are attributable to culture, which affects the structure and operational repertoires of businesses and the behavioral preferences of individuals within the business.

This model is predicated on the notion that states possess identifiable cultural characteristics. These characteristics can influence the way economic exchange is conducted in a state. They can influence the structure of business organizations, the behavior of those organizations, and the behavior of the people in those organizations. If predominant cultural traits of a state are known, then it may be possible to say something predictive about such structures and behaviors.

Hofstede contends that problems can arise from differences in organizational business models that vary from state-to-state and which depend largely on cultural attributes within each state. These cultural attributes can influence the type of organizational business structure prevalent in a country. They also can indicate problem areas that may arise if a business attempts to organize itself outside the bounds of what is generally accepted within a culture. Hofstede’s research resulted in the identification of four dimensions of national culture differences among states: **power distance**, **uncertainty avoidance**, **individualism**, **masculinity**. The scores assigned on each cultural dimension are relative to the scores of all other states. An absolute score has no meaning outside its relationship to other states’ scores. The scores indicate the intensity of national cultural characteristics of a state as measured against all other states.

**The Power Distance Index** (PDI) measures how human inequality is handled in a culture with regard to prestige, wealth, and power. It conditions the shape and character of organizations with regard to how hierarchies are structured...
and staffed, how rigidly the levels of hierarchy are maintained, and the decision-making processes within the hierarchy. Hofstede defines power distance as:

[T]he extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. ‘Institutions’ are the basic elements of society like the family, school, and the community; ‘organizations’ are the places where people work.12

The PDI captures how individuals in a society perceive and react to authority. It relates to perceptions of that authority, inequality, use of power, good-and-evil, and superior-subordinate relationships and how they affect behavior and help to shape the landscape of institutions and organizations in a country.

The higher the PDI, the more organizational and institutional cultures tend toward the extremes of rigid hierarchy and centralized conceptions of power, where might makes right and power antedates good and evil. Inequality in organizations is inevitable and based on function. Below are the types of societal norms one expects to see in a state with an extremely low or extremely high PDI. Of course, most states fall in various places along the PD continuum, exhibiting various combinations of these norms.13

The Uncertainty Avoidance Index (UAI) generally measures a society’s sensitivity to the unknown. It captures how people react to unknown situations, and it affects the structure of institutions and the types of operational repertoires developed to conduct transactions. Uncertainty Avoidance is defined as:

[T]he extent to which the members of a culture feel threatened by uncertain or unknown situations. This feeling is, among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules.14

The higher the UAI score, the more rule-driven a society is, with repertoires and standard operating procedures in organizations and institutions clearly spelled out. The social norms captured by the UAI cultural dimension are expressed as the extremes of attitudes and behavior one would expect to see at either end of the spectrum of low and high UAI.15
Dimensions – Combining Power Distance and Uncertainty Avoidance

The two dimensions of **Uncertainty Avoidance** and **Power Distance** inform us as to national proclivities toward certain types of organizational structure and some types of behavior. The two dimensions of PDI and UAI can be plotted together to produce a 2x2 matrix. The resulting matrix provides four types of culturally influenced organizational structures. Hofstede identifies these four structures as the “**village market,**” the “**family,**” the “**well-oiled machine,**” and the “**pyramid of people.**” Hofstede developed this matrix with respect to business organization, and these four modes of organization are strikingly different in their decision-making processes and the demands and expectations that they place on managers and employees. Western countries for the most part are located in the “**village market**” quadrant of the matrix. Russia is situated in the “**pyramid of people**” quadrant. Location in these respective sectors is the result of culturally based characteristics. These characteristics serve not only to situate one’s own country in a quadrant, but to identify it as well as having a propensity to behave in certain ways. This relationship between Power Distance and Uncertainty Avoidance tells us what type of organization will tend to develop to answer the two central questions of 1) who has the power to decide what? and 2) what rules or procedures will be followed to attain the desired ends?

Answers to these two questions have important implications not only for business development in Russia, but for organizational structure and behavior in Russia in other areas such as politics, social life, and the economy. Indeed, the subject of this article is culture’s impact on Russian rejection of institutions transplanted from the West and how the West misperceives that rejection because of its own cultural biases.

What happens when the economic institutions developed in one culture are exported to and grafted onto the economy of another culture that differs dramatically? For instance, what might we expect if the economic institutions of the Village Market were grafted onto the cultural structure of the Pyramid of People?

A case that demonstrates this happenstance is that of the Yukos oil company in Russia from 2000 – 2005 and its erstwhile CEO Mikhail Khodorkovsky. In this case, a Western-style corporate model and practices were thrust rapidly into the Russian business milieu. This case assumes vital importance because of the critical nature of the firm’s business in the Russian energy sector, with its high-profile implications for Russian domestic and foreign policy and the perceived connections to Western governments such as the United States.

**Yukos**

In the summer and fall of 2003, a Russian company was dealing in Russia’s most lucrative and strategic resource – oil. Under the leadership of one of Russia’s oligarchs, Mikhail Khodorkovsky, the company was forced to westernize rapidly and become an international company, subject to western management and accounting standards.
Khodorkovsky was attempting to influence government tax policy with regard to legislation directly affecting the company’s operations. He did this through the funding of opposition parties and, allegedly, through direct payments to the members of Russia’s legislature, the Duma. The Russian government was rebuffed in its attempts to work with Yukos in negotiating some of its major deals, particularly a multi-billion dollar pipeline deal in the summer of 2003 that had major foreign policy impact. The company was charged with tax evasion and its CEO arrested in October of 2003, charged with tax evasion and fraud, convicted, and imprisoned with an eight-year sentence.

Two reactions arose to this drama that began unfolding in mid 2003, the primary Western reaction and the primary domestic Russian reaction. This section analyzes the Khodorkovsky-Yukos case from the perspectives of the West and of Russia herself. The primary method of analysis is a comparative examination of how the two countries reacted to the affair as predicted by the countries’ location in the quadrants of the “Market” and of the “Pyramid.”

The Dimensions of Culture model helps to explain both of these positions. The two dimensions of Uncertainty Avoidance and Power Distance provide a 2x2 matrix in which countries are situated according to the four different combinations available from the characteristics of PDI, UAI, High, and Low. Each of the four quadrants of the matrix predicts distinct behavior that we can expect to see from countries situated in each of these.

Key to the pyramid society is the belief in hierarchy, respect for that hierarchy, and the belief that persons have a place in that hierarchy. These social norms inform both political and business organizations, their structure, and their rule-based behavior. Parallel to the hierarchic structure is the collection of social norms characteristic of high uncertainty avoidance. Belief in the necessity of law and order is a key norm in the reduction of uncertainty. Clear and unambiguous rules, the need for clarity and structure, and very little risk-taking are characteristic of organizations and institutions that make up societies organized along pyramid lines.

The package of social norms of the Pyramid differs substantially from that of the Market. In fact, they are almost diametrically opposed. Moreover, Russia is not simply located in the quadrant for the pyramid; it is located deep within the quadrant because of its extremely high scores on PD and UA, so the types of institutions and behavior characteristic of these norms should be greatly in evidence. Conversely, institutions and behavior characteristic of the norms of the Market should be absent.

When policies and prescriptions appropriate to the Market are forcibly interjected into an environment without consideration of whether the fundamental cultural norms are in place to support the imported ideology, it is analogous to the transplantation of an organ from one human being to another without testing for the appropriate blood or tissue types, which results in a rejection of the transplanted organ as the host environment asserts itself. Likewise, if policy prescriptions from one paradigm are imposed into to a paradigmatically differing cultural environment, we can expect to see a rejection as a result of cultural dissonance. How severe the rejection depends upon the distance between the cultural norms of the two opposing paradigms. The cultural norms of the Village Market and of the Pyramid of People differ dramatically, and the distance between the United States and Russia on the relative scales of Power Distance and Uncertainty Avoidance is significant. This gap signifies misalignment between the West’s economic ways and means imposed on Russia and the domestic social and cultural norms necessary to support those ways and means. These ways and means were called the “Washington Consensus.”

The Washington Consensus coalesced around several assumptions that would dictate the American posture toward Russia. The resulting package of reforms launched by President Boris Yeltsin’s team combined with Western know-how, financial assistance, and political support would make for a transition as smooth as could be expected. The perceived potential benefits as well as the envisioned timetable were accepted wisdom of the day.

The combination of privatization, liberalization, and decentralization was supposed to lead quickly, after perhaps a short transition recession, to a vast increase in production. It was expected that the benefits from transition would be greater in the long run than in the short run, as old, inefficient machines were replaced, and a new generation of entrepreneurs was created. Full integration into the global economy, with all the benefits that that would bring, would also come quickly, if not immediately.\(^\text{19}\)

But other voices, unheeded, cautioned that such an approach would not work: “I warned … that democracy could not be imposed from the top by any clever laws, by any wise politicians. It cannot be put on like a cap. Democracy can only grow like all plants grow – from the bottom up.”\(^\text{20}\)
The gap between Western institutions and Russian cultural context constitutes a kind of cultural dissonance, where the superstructure of organizational structure, behavior, and goals do not align with the underlying social and cultural norms necessary to support them. Consequently, we should have expected an inevitable rejection of the Western economic model at some point during the 1990s as this inappropriate set of policies was superimposed on Russia.

The Yukos Case

For Russia, the culturally dissonant rejection of Western institutions came with the arrest of Mikhail Khodorkovsky and the dismantling of his Western-styled business edifice Yukos in 2003-2005. The Yukos case is an example of an effort to introduce Western institutions, rules, and corporate behavior into an environment informed by dramatically different cultural norms. Although Yukos was a Russian company, its leadership consciously strove to transform it rapidly into a Western-style company that subscribed to the standards and behavior of Western companies. This course might not have had such highly public and dramatic consequences had Yukos not had especial importance to the political economy of Russia. But several factors combined to ensure that Yukos’s actions would attract attention: 1) Yukos controlled two percent of the world’s oil production and fully 20 percent of Russia’s oil production, 2) oil and natural gas are the primary sources of hard currency for Russia as well as the drivers of the economy, 3) oil is a strategic resource that figures heavily in the Russian government’s foreign policy calculations, and 4) the CEO of Yukos was a Westernizer constantly at odds with the Russian government and seemingly more at home with foreigners and, moreover, was Russia’s richest man at the time with a net worth of more than $15 billion. All of these factors ensured that a conflict would emerge, a conflict between competing cultural paradigms. The Yukos case presents itself as an illustration of cultural dissonance, or the misalignment between an organization native to one cultural paradigm and the collection of social norms necessary to its support in another paradigm.

The case itself was complex, and many of its intrigues have been clouded by misinformation. Three major issues that provide subject matter for cultural analysis of the case, from both the Western and Russian perspectives are 1) The issue of corporate tax minimization, 2) The interaction of security, foreign policy, and business, and 3) The issue of company management in important strategic industries.

1) The issue of corporate tax minimization

Tax minimization in the West, particularly in the United States, is legal and useful. The U.S. tax code is complex, and large corporations require phalanxes of specialist lawyers to remain abreast of the latest changes and interpretations of the code. But there is some measure of stability and predictability as to what is permitted and what is not that has developed over years of practice and familiarity. Even the gray area between what is clearly legal and clearly illegal is relatively understood to the participants as a set of what are commonly called “unwritten rules” or informal constraints. It can be called a “regime” or set of repertoires and expectations that signals what is acceptable and what is not in the area of tax law.

In Russia, tax minimization via rigorous interpretation of the tax code was also practiced in the mid-1990s and beyond 2000. Yukos was at the forefront of tax minimization in that it brought in dozens of Western lawyers and experts to assist with its accounting. When the firm adopted Western-style accounting, it also adopted Western-style tax minimization rigor.

The temptation for Yukos (and other companies) to engage in tax minimization to increase earnings was simply too great to resist, especially as Yukos had imported personnel comfortable with the necessary techniques. The company’s willingness to take unknown risks and its openness to change and innovation are characteristics of the Market. In the West and to a point, aggressive tax minimization is an accepted way of doing business, as long as all actions are legal. Combing the tax code and creating elaborate transfer pricing schemes may push the envelope in the US, for example, but rarely land companies in court unless they behave outlandishly. Thus, by this standard, Yukos and other companies engaging in elaborate transfer pricing schemes and holding company manipulations were perfectly within the law – if they had been US companies doing business in the West.

But what is acceptable and normal in the West can grate against cultural and social norms that do not admit that the rule of law permits skirting of the law or distorting it to one’s advantage. Especially in a nation that is desperate for hard currency, which suffered an economic collapse in 1998 at least partly because of shady business dealings, and
which has desperately trying to reform its economy to correct the dysfunctions that led to that collapse, the specter of a rogue company inviting foreigners to parcel out Russia’s wealth is not something that will be tolerated in a country with Russia’s culture and history. And the recitation of phrases such as “rule of law” garner little sympathy in a country wracked by Western-style reforms that led to the rise of the oligarchs in the first place: “The huge enrichment of a few insiders while most people struggled with poverty helps to explain why, for many Russians, democracy and the free market are still synonymous with corruption and inequality.”

Khodorkovsky was playing to a Western audience when he brought in a phalanx of Western attorneys and tax specialists to comb the Byzantine Russian tax code for loopholes. Aggressive tax minimization by virtue of accounting legerdemain in the United States is certainly the norm. But what is the norm in the West can be off-limits in Russia, either explicitly or implicitly. Can anyone familiar with the Russian psyche and recent Russian history believe that the specter of slick American lawyers arriving in droves to reduce the amount of money a wealthy Russian oligarch pays to the state was a welcome development? Given the aforementioned questionable acquisition of Yukos in the first place, the notion that an oligarch such as Khodorkovsky – with the aid of Americans – wasn’t paying his full share of taxes on property he stole from the state was simply too much to stomach. To the government, it was clear what Khodorkovsky was up to, and it was unacceptable.

Through legalistic interpretations of the letter of the law, the use of offshore and onshore schemes, ‘transfer pricing,’ and political connections alike, the big energy groups had long kept their taxes, and the dividends they paid to minority shareholders, to a minimum.

In this case, “westernization” of Yukos attracted too much of the wrong kind of attention. Victor Ivantee, Director of the Institute of People’s Economic Predictions, Russian Academy of Sciences, gave this droll interpretation of Yukos’s misfortunes:

There are still these strange conversations about privatization . . . They aren’t about the justness or unjustness of privatization. They are about the effectiveness or ineffectiveness. In this only some property owners paid taxes while others did not. We can say, the head of Suprutneftegaz, Valdimir Bogdanov, always pays taxes, doesn’t occupy himself with politics and somehow never was put on the list of oligarchs. On the other hand, those who are called Oligarchs – these are smart, educated people. Earlier, it was necessary to figure this out rather than sit in Matrosskaya Tishina. You have to pay taxes.

2) The interaction of foreign policy and business

In the West, there is far more cooperation between big business and government (and academia) than most people are cognizant of. Such coordination is possible because of the easy movement between business and government of top officials and executives of major companies. Some political activists see these connections as somehow sinister. For instance, they see corporate conspiracy when the Vice President of the United States carries corporate connections with the large conglomerate Halliburton. Richard Cheney is a former chief executive of Halliburton and, while Vice President of the United States, continued to receive up to $1 million in deferred compensation from the Texas-based company. But such is the way business works in the West, with interlocking boards of directors and easy movement between the private and public sectors. Lawrence Summers, the current president of Harvard University, typifies this. He served as the chief economist for the World Bank in 1992 and later became the top Clinton administration figure dealing with Russia.

Notwithstanding the old saw “What’s good for General Motors is good for the Country,” the issue is more complex. What is good for American business is not necessarily good for the country, and when proposed business deals collide with important foreign policy objectives of the United States, there is much discussion over the issue. The American business community utilizes all legal means at its disposal to put forward its point of view. Most industries and large companies have Washington-based lobbyists, and firms utilize public relations firms to affect not only legislation, but to build public and political support for its actions. The desire of oil companies to open development of Alaska, for example, presents a domestic political dilemma that involves American security policy, domestic pressure groups, and big business. All sides exert pressure in the political process to gain advantage for its point of view.
Two issues in the Yukos case relate to this type of political activity. The first is Yukos’s campaign in summer of 2003 to sell 40 percent of the company stock to Exxon-Mobile and Chevron-Texaco for approximately $25 billion, which would have been the largest single amount of foreign direct investment in Russian history. But it also would have ceded a large amount of control of a strategic Russian resource to foreigners. In fact, Russian oil and gas sales are the primary engines of the Russian economy.

The second issue was the proposed decision to build a pipeline from West to the East. At issue was the destination – China or Japan. From the Russian government’s point-of-view at the time, the issue had important foreign policy implications and required coordination between government and business. The government preferred a pipeline from Angarsk in Siberia to Nakhodka on the far eastern coast, which would provide multiple outlets. Yukos, however, was a privately-held company that was pursuing an increasingly independent course. It would build the pipeline where it saw the best chance for profit, and this meant from Angarsk to China – a single captive buyer.

In both cases, Yukos used all the weapons at its disposal to achieve its business goals, including hard lobbying of Duma deputies. In some cases, those weapons were Western in style and content. “I am absolutely certain that Khodorkovsky’s people learned their lobbying techniques in Washington, DC,” says economist and former Russian Prime Minister Yegor Gaidar. The Market social norms of independent action and risk-taking were again on display. This activity seemed perfectly reasonable in the West, even expected. From this perspective, it was a healthy sign.

Particular industries and resources can have strategic import for a state. In such cases, the government takes interest in the business dealings of companies, whether the companies deal in high technology convertible to military use or deal in resources particularly valuable to the state and its policies toward other states. In the 21st century, control over energy resources has become increasingly important not only to the world economy, but to the security of individual states and the execution of their respective foreign policies. For Russia, her energy resources are the key to her increasingly prosperous economy, which is built on resource exports. Russia is awash in energy, with 20 percent of the entire world’s natural gas. But oil is her most important export.

According to BP PLC, Russia’s reserves outstrip all others in the world except Saudi Arabia. Russia owns fully six percent of the world’s proven oil reserves at 69.1 billion barrels. Another energy auditing company, DeGolyer and McNaughton, estimated that Russia’s actual recoverable reserves are between 150 and 200 billion barrels. These strategic energy resources give Russia incredible leverage in world energy markets and make her a prime target for investment in energy infrastructure and exploration. Given Russia’s imbalanced economy, with 53 percent of all exports related to energy, strategic resources are far more important to the Russian government than they otherwise might be.

It was in this environment that Yukos challenged the Russian state on energy policy. In 2003, on the table was the proposed decision to build a pipeline from West to the East to provide an outlet for Russian oil to the orient. Should the pipeline be built to China or Japan? The Russian government believed that the issue had important foreign policy implications for its relations with both China and Japan and was part of a larger game of foreign policy brinksmanship. It was obvious to the Putin administration that the pipeline decision required coordination between government and business. The government preferred a pipeline from Angarsk in Siberia to Nakhodka on the far eastern coast, which would provide multiple outlets for oil, although it would be longer and more costly. As mentioned earlier, Yukos wanted the pipeline from Angarsk to China – a single captive buyer. The China route “would have locked Russia into the China market.” In this case, a private company was openly defying the Russian state in the achievement of its foreign policy goals in an area of strategic resources. Just over a year later, the Japan-proposed $11.5 billion pipeline project won out over the China route. Yukos’s decision to openly oppose the Russian state’s energy policy and foreign policy goals, going so far to lobby against those goals in the Duma, marked Yukos as a decidedly non-Russian company.

3) The issue of company management in important strategic industries

For the United States and many Western multinational companies, boards of directors are increasingly becoming international in flavor and style. Companies are merging across international borders as part of the process broadly called “globalization.” They are making acquisitions in many different countries. They oftentimes are diversifying their interests, and they are becoming far more international in outlook and are gradually losing their particular national characteristics. Under Khodorkovsky, Yukos was consciously moving into this family of multinational corporations.
But to Russia, this course was not palatable. Russians throughout the last century have had an abiding fear that someone would sell them out to foreigners. In September of 2003, Khodorkovsky appeared to be on the cusp of concluding a private deal to sell off 40 percent of Russia’s largest oil company to foreign capitalist investors for $25 billion. Foreigners would own a large piece of the Motherland. It didn’t matter and still does not matter that this is the way business is conducted in the West and that multi-national companies own large shares of other companies throughout the world. This was Russia, with its recent legacy of “shock therapy” of the 1990s and economic crash of 1998, and which saw hundreds of thousands of Russians lose their savings in the devaluation of the Ruble.\textsuperscript{35} It appeared that Russia’s own robber barons were bent on selling off the country. Some Kremlin insiders were equally determined to prevent it. Former deputy defense minister Yuri Rodionov, a high-ranking member of Putin’s United Russia Party, gave voice to what many observers had believed was obvious in the months following the July 2003 arrest of Yukos’s number two man Platon Lebedev – the Kremlin would not permit the transfer of ownership of Russia’s natural resource heart to a foreign company.

We should not allow someone to sell our national treasures to overseas which provide a significant portion of budget revenues. Because then [foreigners] will have control over a large part of our budget. Everything should work in the national interest of Russia.\textsuperscript{36}

The Russian government views its strategic natural resources as a national security asset, and as such, has a keen interest in who controls them. Oil is quite literally what fuels the Russian economy, and this gives the government even more incentive to ensure that it is handled in the best interests of the country. “[T]he Kremlin views oil and gas as strategic national assets. Russian law forbids even looking at statistical data on Russia’s energy reserves.”\textsuperscript{37} Vladimir Putin’s chief economic advisor in 2004, Andrei Illarionov, affirmed that his government takes a dim view of foreigners controlling Russia’s strategic resources. Said Illarionov:

The school of thought that natural resources are a very special commodity is spreading very fast. In the 1990s, it was widely believed that natural resources could be privately owned and therefore private companies were accumulating reserves. But over the past several years, a near-consensus has emerged that natural resources should belong to the state – not to private citizens and private companies – but the state. This is now very clearly understood and that’s why any decision by foreign investors to acquire natural resources is expected to be discussed with the state.\textsuperscript{38}

Overlaying all of this was the behavior of Mikhail Khodorkovsky. Khodorkovsky exhibited behavior characteristic of highly individualistic societies such as the United States (Hofstede IDV Score of 91), while his own society’s cultural bases are far more collectivistic (Hofstede’s IDV Score of 39). His behavior increasingly resembled that of a westerner, and this did not help his popularity in his home country. “He behaved as if he were in Washington and not in Russia,” says former Prime Minister Yegor Gaidar. “He misunderstood – or forgot – that we are in Russia and not in Washington, where the rules of the game are significantly different.”\textsuperscript{39} With respect to Khodorkovsky’s actions in the run-up to his arrest, an astute Russian analyst for RIA Novosti named Peter Lavelle highlights inconvenient facts that rarely make their way into Western editorials. With regard to control over Russia’s strategic resources, Lavelle presented an essential point for consideration:

Like it or not, but the governments of energy export countries – with the exception of the United States and the United Kingdom – control this lucrative and very strategic sector. Why should Khodorkovsky, of all people, after the free-for-all of Russia’s privatizations of the 1990s, have been allowed to determine the country’s energy and economic future? It would have been a dereliction of duty for any head of state to permit a bandit like Khodorkovsky to sell one of Russia’s crown jewels to a non-Russian oil concern.\textsuperscript{40}

CONCLUSION

Western perceptions are passed through the prism of Western universalism and often take on a negative political character with regard to Russia. Western audiences rarely get a glimpse of alternative explanations of events in Russia – explanations outside the paradigm of judgmental Western universalism and which are largely political in nature. Without cultural content, such conclusions are perhaps inevitable given the absence of crucial factors that most scholars acknowledge play a large role in institutional behavior. Without cultural content, then, analyses of institutions
and their functions are inevitably incomplete. We should not lurch in the other direction as a reaction to the dominance of quantitative explanations; this is not a call for cultural determinism. It is a call for recognition that different paths to development exist, and much of the character of these paths can be discerned in the latticework of specific cultures. Part of this latticework is the constellation of institutions that comprise society – business institutions, financial institutions, social institutions, educational institutions. Yegor Gaidar was prime minister of Russia under Boris Yeltsin in 1993 and designed the economic program known as “shock therapy” – the wholesale transition from a command economy to a market economy. The program led to massive dislocations in the Russian economy, rampant inflation, the ascent of organized crime, massive concentration of wealth in the hands of a shrewd few, and, finally, a dawning realization on the part of Gaidar. Gaidar acknowledges today that economic change, culture, and history are inextricably bound up. In perfect irony, he captured the thesis of this article when he told me in 2005:

My position is that, of course, history matters. And Russia has her own history. Economic models of course are connected with the particular historical circumstances and institutions of individual states. With regard to the importation of Western models, you cannot import the 500 years of British parliamentary history upon which the British economy is based. You cannot hope that things will work the same way.

REFERENCES

1. Symptoms of cultural dissonance have been evident throughout what might be called the modern era, with its increasing interaction between differing cultures. Daniel noted in the mid-1950s that “Today’s Middle East ‘chaos’ is largely due to the shift of modernist inspiration from the discreet discourse of a few in Oxford colleges and Paris salons to the broadcast exhortations among the multitudes by the mass media.” Daniel Lerner, *The Passing of Traditional Society: Modernizing the Middle East* (New York: The Free Press, 1958), 45.


5. “Abstract, unobserved concepts such as utility, culture, intentions, motivations, identification, intelligence, or the national interest are often used in social science theories. . . . Explanations involving concepts such as culture . . . are suspect unless we can measure the concept independently of the dependent variable that we are explaining.” Gary King, Robert O. Keohane, Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994), 109-110. “The use of ‘culture’ as an explanatory variable in social science research is a subject of much contention . . . .” 226.

6. An argument can be made that this disinclination to take culture seriously is itself a culturally derived product of the Western universalist perspective. Western explanations for the transition of developing countries to modern economies have traditionally proceeded from the assumption that there is but one path to economic development. The “modernization” literature of the 1950s and 1960s offers numerous examples of this perspective. See Daniel Lerner, *The Passing of Traditional Society: Modernizing the Middle East* (New York: The Free Press, 1958). See pages 13 and 45. Lerner typologizes persons as “traditional,” “transitional,” and “moderns.” He assumes that developing nations are treading one path to what is variously called “Europeanization,” “Americanization,” and “modernization.” See W.W. Rostow, *The Stages of Economic Growth* (London: Cambridge University Press, 1960). Rostow’s influential thesis posited that every nation passes through the same stages-of-growth, from takeoff to maturity to high mass consumption. Much later, Francis Fukuyama contended that the world’s political and economic cultures had all but converged in what he grandiosely called “The End of History.” See Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books, 1992), xi. He argued that “. . . a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world . . . as it conquered rival ideologies like hereditary monarchy, fascism, and most recently communism.” Fukuyama’s popular notion was that democratic capitalism is a universal prescription for material prosperity and for social and political organization as well. This view seemed to take hold in the West with especial energy in the aftermath of the Soviet collapse.
7. “In the scholarly world, the battle has thus been joined by those who see culture as a major, but not the only, influence on social, political, and economic behavior and those who adhere to universal explanations, such as devotees of material self-interest among economists, of ‘rational choice’ among political scientists, and of neorealism among scholars of international relations.” Samuel Huntington in (Lawrence E. Harrison and Samuel P. Huntington, ed.), *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000), xiv.


11. Hofstede’s survey research was conducted in two rounds between 1967 and 1973 and obtained answers from more than 116,000 questionnaires in 20 different languages from 72 countries. He determined from the data that countries differed culturally primarily along these four dimensions. “Other dimensions did not readily appear, nor could they be inferred from theory.” For detailed information on the methodology used and individual country results, see Geert Hofstede, *Culture’s Consequences: Comparing Behaviors, Institutions, and Organizations Across Nations* (2nd ed.), (London: Sage Publications, 1980, 2001). The information cited is from page 58.


16. These four labels correspond to the dimensions as: 1) **Market**: Small PD/ Weak UA, 2) **Family**: Large PD/ Weak UA, 3) **Machine**: Small PD/ Strong UA, 4) **Pyramid**: Large PD/ Strong UA.

17. Hofstede, 140.

18. This phenomenon of introducing Western institutions into Russia forms the basis of Uriel Procaccia’s excellent study on contract law in Russia. See Uriel Procaccia, *Russian Culture, Property Rights, and the Market Economy* (Cambridge: Cambridge University Press, 2007).


26. How quickly verities can be overturned.

27. See the furor over a Chinese bid for ownership of America’s eighth-largest oil company Unocal for $18.5 billion. “Never give a sucker an even break,” *The Economist* (July 2, 2005), 12-13.


29. Author interview with Yegor Gaidar, Moscow (July 20, 2005).


34. Culturally based conflicts within companies are as prevalent as ever. Cultural sensitivity toward these types of problems remains at a rudimentary level in many companies, and some problems arising from cultural differences may appear to be irreconcilable, depending on the particular circumstances. The relationship between multinationals and various national governments is still a relatively unexplored arena, except perhaps in the area of international risk management.


39. Author interview with Yegor Gaidar, Moscow (July 20, 2005).


41. Ibid.